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BELLANCA AIRCRAFT CORPORATION

New Castle, Delaware

Biggs, Richmond & Co.
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JUN 3 1933

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FINANCIAL STATEMENT
for the Calendar Year 1932

BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

March 15, 1933.

TO THE SHAREHOLDERS:

The consolidated balance sheet and profit and loss account of Bellanca Aircraft Corporation, and subsidiary companies, for the fiscal year ending December 31, 1932, as certified by the Company's Auditors, Messrs. Lybrand, Ross Bros. & Montgomery, are presented herewith.

Operations: Following the annual election of 1932, your Company succeeded in adopting a rigid program of economy and of living within its means. The New York Office, a source of great expense to your Company, was eliminated. All appropriations and expenses were rigidly budgeted and each department reorganized to fit present conditions. The budget was not only adopted, but was lived up to during the balance of the year, with the result that sales and administrative expenses during the last six months period were reduced from $117,132.72 to $47,939.17, or to 40.92 per cent of the corresponding expenses for the like period in 1931.

Factory overhead was substantially reduced by $57,272.00 and what is more important a gross manufacturing profit (i.e., before selling and administrative expenses) of $71,298.80 was realized in the year 1932 against a manufacturing loss in the prior year of $12,331.00.

The consolidated operations of the Company, after an allowance of $19,214.00 for writing down inventories to estimated realizable values at December 31, 1932, resulted in a loss of $99,650.70 as compared with a loss of $397,231.65 for the previous fiscal year, despite the expenses of defending lawsuits brought against your Company but decided in its favor and the cost incurred in full settlement and release of certain claims against your Company, which were in dispute at December 31, 1931. Of the year's losses, $63,610.00 were incurred prior to the time that your Company was able to put through the present program of economy, so that the loss in the second half of the year, not counting write-offs, was $17,825.96. And, in fact, the improvement so continued that during the last four months an average monthly net profit of $2,116.19 was realized. The profit for the month of December before year end adjustments was $4,572.21.

Patents, etc.: Your Company, as in the past, has caused to be made many applications for patents and has acquired an exclusive license to some 20 patents already allowed. Of the patents issued, some are being infringed by other corporations and action to defend your rights is being taken.

The Company has continued its engineering and development work as heretofore so that the future demand of industry for improved equipment and design may be fully met.

The subsidiary, Bellanca Aircraft Corporation of America (New York), which has been inactive since July, 1928, was dissolved with the formal transfer to your Company of the assets and liabilities. Blue Star Air Lines, Inc., wholly owned subsidiary, is inactive.

Sales and Outlook: Your Company's sales were, in previous years, largely confined to private owners and sportsman pilot class. With a change in policy, your officers developed additional markets and interested the various U. S. Government Departments in your Company's products. Substantial contracts were received and delivery made to the U. S. Department of Commerce, U. S. Army Air Corps, U. S. Navy and the Brazilian Government. Total sales for the year amounted to $677,383.88 of which $395,594.78 were, as shown by Auditor's report, delivered in 1932. Your Company had on January 1, 1933 unfilled orders totalling $281,789.10.

The year just closed marks the first upward movement toward profitable operations in your Company's history, which, with the already improved cash position, the high reputation of your Company's products in the industry, strengthened by the Government business secured and in the process of manufacturing and the economies in operation, places your Company in a position to take full advantage of any slight improvement in general business.

Respectfully submitted,

By order of the Board,

G. M. BELLANCA, *President.*

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BELLANCA AIRCRAFT CORPORATION AND SUBSIDIARIES

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CONSOLIDATED BALANCE SHEET—DECEMBER 31, 1932

ASSETS

Current:		
Cash		$ 92,542.77
Bills receivable, secured, considered good ($11,863.90 past due)		17,513.90
Accounts receivable, considered good (includes $1,527.83 due from officers)		43,989.04
Inventories (at cost or estimated realizable value whichever the lower)		340,408.33
Accrued interest receivable		1,030.65
		$ 495,484.69
Investments, at estimated market values		6,720.00
Deferred experimental expenses, patents, prepaid expenses, etc.		24,556.74
Land, buildings and equipment, at cost, net of allowance for depreciation		428,662.50
		$ 955,423.93

LIABILITIES

Current:		
Accounts payable		$ 51,654.93
Accrued accounts		4,001.65
Customers' deposits		69,500.00
		$ 125,156.58
Reserve for contingencies		5,916.82
		$ 131,073.40

CAPITAL, ETC.

Capital stock:			
Preferred, par $100, authorized $1,000,000:			
None issued.			
Common, without nominal or par value, authorized 500,000 shares:			
Issued or reserved for issue in exchange 174,750 shares			
Less treasury stock	6,255 shares		
	168,495 shares		$1,889,375.19
Deficit, January 1, 1932		$965,373.96	
Loss for the calendar year 1932, as annexed		99,650.70	1,065,024.66
			824,350.53
			$ 955,423.93

THE BOARD OF DIRECTORS, BELLANCA AIRCRAFT CORPORATION,
New Castle, Delaware.

Philadelphia, February 10, 1933.

Dear Sirs:

We have examined the accounts of the Bellanca Aircraft Corporation, and its Subsidiaries, Bellanca Aircraft Corporation of America and Blue Star Air Lines, Inc., as at December 31, 1932. Inventories of planes and parts, finished and in process, are valued at cost or estimated realizable values, whichever the lower, with allowances for estimated cost to complete but without allowances for expenses of marketing. The special nature of this product precludes accurate determination of its market value. Upon the foregoing basis, we certify that the accompanying balance sheet and income account, in our opinion, set forth the consolidated financial condition of the companies at December 31, 1932, and the results of their consolidated operations for the year ended that date.

—Lybrand, Ross Bros. & Montgomery.

CONSOLIDATED INCOME ACCOUNT

For the Calendar Years 1931 and 1932

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		1932		*1931*
Sales of planes, etc., net		$395,594.78		$590,362.26
Cost of sales		324,295.98		602,693.99
Gross profit		$ 71,298.80		$ 12,331,73(d)
Selling, administrative and general expenses	$143,558.72		$277,408.69	
Amortization of patents and experimental expenses	4,360.06		30,772.47	
		147,918.78		308,181.16
Loss before other expenses, etc		$ 76,619.98		$320.512.89
Other income, net		3,816.72(d)		19,873.66
		$ 80,436.70		$300,639.23
Adjustment of inventories to estimated realizable values		19,214.00		96,592.42
Loss for the year		$ 99,650.70		$397,231.65

(d)—Deficit.

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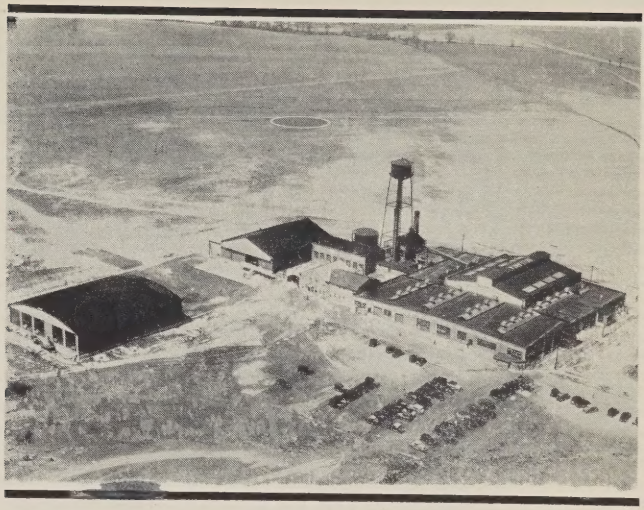

BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

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FINANCIAL STATEMENT
AS OF DECEMBER 31, 1933

BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

•

February 20, 1934.

To the Stockholders of Bellanca Aircraft Corporation:

The Annual Report of the Corporation for the fiscal year ending December 31, 1933, including a Consolidated Balance Sheet and Income Account, as certified by the Company's auditors, Messrs. Haskins & Sells, is submitted herewith.

The year 1933 marks a forward step in your Company's history. For the first time during its existence it is able to show a profit from all operations during the year amounting to the sum of $53,082.65, after write-offs, depreciations and reserves for taxes, as compared with a loss of $99,650.70 for the previous fiscal year. The cash position of the Company was likewise improved and ought to assist much with the improvement of business.

Economies in operating expenses have been effected when and wherever possible. There is not an item of operating expenses which has escaped scrutiny and decisive action.

During the year, careful consideration was given and a substantial reduction was effected in the annual franchise tax of the Corporation, and the amount of transfer stamp taxes payable under existing laws on the transfer of shares, by changing the authorized Common Stock from a no-par value to a par value of $1.00 each. The intrinsic or market value of your investment in the Corporation was in no way affected, as no change was made in the total number of shares of stock outstanding and/or authorized. The excess value of the net properties of the Corporation over the par value of One Dollar ($1.00) per share was set up on the books of the Corporation as Capital Surplus and against this was charged the deficit existing on December 31, 1932.

The Voting Trust Agreement of November 22, 1928, under which practically all of the outstanding Common Stock of the Corporation was deposited, terminated by limitation on midnight of November 21, 1933. The holders of the Voting Trust Certificates thereupon became entitled to receive by exchange of their Voting Trust Certificates for Common Stock, full voting rights which were heretofore invested in the Voting Trustees.

Looking forward your Management feels that the constructive developments which have taken place provide an opportunity to satisfactorily and profitably develop an attractive volume of business.

Respectfully submitted,

G. M. BELLANCA, *President.*

A

CURRENT ASSETS:
- Cash .....
- Notes receivable—Customers—
  cured ($37,374.40 past due)
- Accounts Receivable:
  - Customers .....
  - Officers and employees.....
  - Others .....
  - Total .....
- Less reserve for doubtful n
  and accounts .....
- Inventories (physical invento
  at cost or market, whicheve
  lower):
  - Used airplanes .....
  - Work in process.....
  - Materials and supplies ....
- Accrued interest receivable ..

Total curre

CASH HELD BY SHERIFF OF NEW
WRIT OF FOREIGN ATTACHMEN

INVESTMENT—Aeronautical Expos
preferred stock (at cost) ....

PROPERTY:
- Land .....
- Buildings .....
- Machinery and equipment ...
- Total .....

Less reserves for depreciation
Property—

DEFERRED CHARGES:
- Prepaid insurance .....
- Advances for traveling expens
- Experimental and developmen
  amortized portion (principa
  with new type of airplane, co
  is uncompleted) .....
- Patent expenses and trade-m
  tized portion .....

Total defer

To

BELLANCA AIRCRAFT CORPORATION:

We have made an examination of the conso
1933, and of the summary of consolidated
corporation and its subsidiary. In our opi
Aircraft Corporation and its subsidiary co
prepared in accordance with consistent appl

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1933

LLANCA AIRCRAFT CORPORATION (Incorporated in Delaware)
AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

Consolidated Balance Sheet, December 31, 1933

SETS

		$134,013.27
$ 38,774.40		
21,268.01		
143.61		
5,776.75		
$ 65,962.77		
27,258.56	38,704.21	
$ 57,868.44		
69,330.73		
84,441.34	211,640.51	
	1,365.82	
ssets		$385,723.81
K COUNTY UNDER		
		30,000.00
ns Corporation, 6%		
		220.00
	$ 80,874.19	
$307,451.05		
101,878.95		
$409,330.00		
76,020.89	333,309.11	
		$414,183.30
	$ 1,286.63	
	754.06	
penses—Un-		
n connection		
et for which		
	62,671.06	
— Unamor-		
	15,791.87	
charges		80,503.62
		$910,630.73

LIABILITIES

CURRENT LIABILITIES:

Accounts payable:			
Trade	$ 5,050.32		
Other	791.68	$ 5,842.00	
Customers' advance payments		11,901.00	
Accrued accounts:			
Wages	$ 410.08		
Corporate taxes	660.83		
Federal income tax, 1933	8,466.82	9,537.73	
Total current liabilities			$ 27,280.73
DEFERRED CREDIT—Contingent liability on accounts payable			5,916.82

CAPITAL STOCK:

7% cumulative preferred — Authorized, 10,000 shares of $100.00 each; none outstanding		
Common—Authorized, 500,000 shares of $1.00 each; issued, 174,750 shares, less 6,255 shares, held in treasury	$168,495.00	
Total capital stock		168,495.00

SURPLUS:

Capital surplus, arising from reduction in the stated value of no par common capital stock to a par value of $1.00 per share	$1,720,880.19	
Less operating deficit of Bellanca Aircraft Corporation to December 31, 1932	1,065,176.42	
Remainder	$ 655,703.77	
Earned surplus of Bellanca Aircraft Corporation, January 1 to December 31, 1933, and of Blue Star Airlines, Inc., from date of organization to December 31, 1933	53,234.41	
Total surplus		708,938.18

NOTATION:

At December 31, 1933, the company was defendant in litigation in New York, N. Y., involving claims of approximately $26,000.00 principally for commissions alleged to be due to a former employee.

Total ..... $ 910,630.73

ACCOUNTANTS' REPORT

Philadelphia, Pa., February 9, 1934.

d balance sheet of Bellanca Aircraft Corporation (incorporated in Delaware) and its subsidiary company, Blue Star Airlines, Inc., as of December 31, e and earned surplus for the year 1933. In connection therewith, we examined or tested the accounting records and other supporting evidence of the subject to the foregoing, the accompanying consolidated balance sheet and related summary of consolidated income and earned surplus of Bellanca , fairly present their financial condition as of December 31, 1933, and the results of their operations for the year ended that date, and have been n of their system of accounting and with accepted accounting principles.

HASKINS & SELLS.

CONSOLIDATED INCOME ACCOUNT

For the Calendar Years 1932 - 1933

		1933		1932
Sales of planes, etc., net		$681,884.16		$395,594.78
Cost of sales		493,974.04		324,295.98
Gross profit		$187,910.12		$71,298.80
Selling, administrative and general expenses	$93,518.56		$143,558.72	
Amortization of special development and patent expenses, loss from obsolescence, uncollectable notes and accounts, etc.	42,891.95		23,574.06	
		136,410.51		167,132.78
Profit-Loss before other income, etc.		51,499.61 (P)		95,833.98 (L)
Other income		10,049.86		3,816.72 (d)
		61,549.47		99,650.70
Provision for Federal Income Taxes		8,466.82		
Profit-Loss for the year		$53,082.65 (P)		$99,650.70 (L)

(P)—Profit.
(L)—Loss.
(d)—Deficit.

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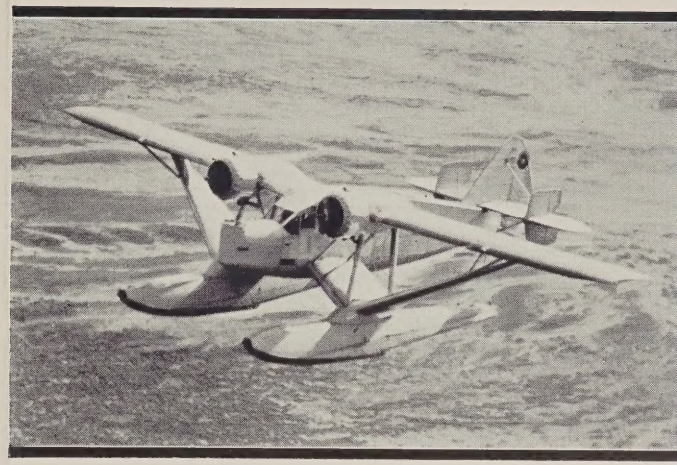

BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

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FINANCIAL STATEMENT
AS OF DECEMBER 31, 1934

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BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

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February 23, 1935.

To the Stockholders of Bellanca Aircraft Corporation:

The Consolidated Balance Sheet and Profit and Loss Account of the Bellanca Aircraft Corporation and subsidiary company for the fiscal year ending December 31, 1934, as certified by the Company's auditors, Messrs. Haskins & Sells, are submitted herewith.

Early in the year it became evident that a modification of your Company's policy was necessary in connection with the construction of airplanes in order to meet the ever-increasing trend for faster and more powerful types of aircraft. As a result new developments became necessary, and during the year your Company developed two new models, for which there are large markets.

One of the new models, a Bimotored Bomber, four of which were sold to the Government of Columbia, has aroused considerable interest throughout the World, and in view of the serious inquiries of several Governments, a large volume of business is probable. The excellent performance and the very large payload carried in this type makes it very easy to offer it either as a transport or a cargo plane, for both of which types there is a considerable market.

The World's fastest commercial aircraft (showing speeds in the neighborhood of 255 m.p.h. with a useful load of over 4,000 lbs.) was also developed and constructed, and will undoubtedly be a major sales item for several more years. This design is significant from both commercial and military standpoints, and as a matter of fact is now being quoted to one of the leading European Governments as a military unit.

To meet the recent increasing realization of Canadian mine operators of the greater utility of the airplane for the transportation of ores and materials to and from their mines, and in order to incorporate fully the latest Department of Commerce requirements, the large single motor plane known as the "Aircruiser" was redesigned and improved, permitting it to carry economically over two tons of payload and to be operated in extreme climatic conditions. The Aircruiser was also made available on floats as a seaplane.

The developments for the year and the amortization of prior years' developments contributed largely to the operating loss of $138,699.65 sustained during the year 1934.

The prospects for 1935 point to a very good year for your Company in view of the general improvement in business, together with the increased appropriations for aircraft purchases by the various Government, coupled with the most complete line of aircraft your Company has ever been able to offer.

As of January 1st, 1935, orders for approximately $160,000.00 were on the books, all secured by cash deposits with the exception of one from the United States Navy.

Respectfully submitted,

G. M. BELLANCA, *President.*

CURRENT ASSETS:
Cash .....
Notes and accounts receivab
Notes receivable—Custon
(past due) .....
Accounts receivable:
Customers .....
Officers and employees ..
Others .....
Total .....
Less reserve for doubtful
counts .....
Notes and accounts r
Inventories (at lower of co
Used airplanes .....
Work in process .....
Materials and supplies .
Total inventories .
Accrued interest receivable
Total current asse

CASH HELD BY SHERIFF OF NEW
OF ATTACHMENT .....

INVESTMENT—Aeronautical Exp
ferred stock (at cost) .....

PROPERTY (at cost) LESS RESER
Land .....
Buildings .....
Machinery and equipment .
Total .....
Less reserves for depreciati
Property—Net

DEFERRED CHARGES:
Unexpired insurance premiu
Prepaid taxes .....
Advances for traveling expe
Experimental and developme
Unamortized portion ...
Patent expenses and trad
amortized portion .....
Total deferred cha
Total .....

BELLANCA AIRCRAFT CORPORATION:
We have made an examination of the
Inc., as of December 31, 1934, and
tested the accounting records and ot
sheet and related summary of consoli
their financial condition as of Decem
cation of their system of accounting

ELLANCA AIRCRAFT CORPORATION (Incorporated in Delaware)
AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

Consolidated Balance Sheet, December 31, 1934

SETS

.....		$ 71,005.48
—Secured		
.....	$ 31,874.40	
.....	11,875.71	
.....	246.02	
.....	5,294.99	
.....	$ 49,291.12	
s and ac-		
.....	15,432.84	
able—Net		33,858.28
market):		
.....	$ 42,760.33	
.....	40,853.71	
.....	77,270.84	
.....		160,884.88
.....		333.10
.....		$266,081.74
RK COUNTY UNDER WRIT		
.....		30,761.33
ons Corporation 6% pre-		
.....		220.00
FOR DEPRECIATION:		
.....	$ 80,874.19	
.....	306,068.89	
.....	101,899.79	
.....	$488,842.87	
.....	90,630.54	
.....		$398,212.33
.....	$ 1,077.20	
.....	100.02	
.....	101.63	
xpenses—		
.....	83,994.66	
ks — Un-		
.....	16,738.29	
s		102,011.80
.....		$797,287.20

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable:			
Trade creditors	$ 24,588.62		
Others	23.93		
Total accounts payable.....		$ 24,612.55	
Customers advance payments ..		15,084.33	
Accrued Accounts:			
Wages	$ 3,559.38		
Corporate taxes	560.83		
Federal income tax—1933....	1,829.78		
Commissions	7,000.00		
Total accrued accounts.....		12,949.99	
Total current liabilities.....			$ 52,646.87
CAPITAL STOCK:			
7% cumulative preferred—Authorized, 10,000 shares of $100.00 each; none outstanding			
Common—Authorized, 500,000 shares of $1.00 each; issued, 174,750 shares, less 6,255 shares held in treasury; outstanding, 168,495 shares		$168,495.00	
Total capital stock			168,495.00
SURPLUS:			
Capital surplus, arising from reduction in the stated value of no par common capital stock to a par value of $1.00 per share.....		$1,720,880.19	
Less operating deficit of Bellanca Aircraft Corporation to December 31, 1932		1,059,259.60	
Remainder		$ 661,620.59	
Deficit of Bellanca Aircraft Corporation from January 1, 1933, and of Blue Star Airlines, Inc., from date of incorporation.....		85,475.26	
Surplus—Net			576,145.33

NOTATION:

At December 31, 1934, the company was defendant in litigation in New York, N. Y., involving claims of approximately $26,000.00, principally for commissions alleged to be due a former employee.

All patents granted to the corporation since January 28, 1928, are registered in the name of Mr. G. M. Bellanca. The corporation holds an unassignable exclusive license for the use of these patents.

Total $797,287.20

ACCOUNTANTS' CERTIFICATE

Philadelphia, Pa., February 12, 1935.

olidated balance sheet of the Bellanca Aircraft Corporation (incorporated in Delaware) and its subsidiary company, Blue Star Airlines, related summary of consolidated income and earned surplus for the year ended that date. In connection therewith, we examined or upporting evidence of the company and its subsidiary. In our opinion, subject to the foregoing, the accompanying consolidated balance income and earned surplus of the Bellanca Aircraft Corporation and its subsidiary company, Blue Star Airlines, Inc., fairly present , 1934, and the results of their operations for the year ended that date, and have been prepared in accordance with consistent appli- ith accepted accounting principles.

HASKINS & SELLS.

BELLANCA AIRCRAFT CORPORATION
AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

Summary of Consolidated Income and Earned Surplus for the Year Ended December 31, 1934

SALES:		
Airplanes	$453,614.70	
Parts, materials, and supplies	69,362.31	
Service work	18,863.84	
Total		$541,840.85
Less discount on airplane sales		3,960.00
Net sales		$537,880.85
COST OF SALES:		
Airplanes	436,971.52	
Parts, materials and supplies	56,121.06	
Service work	20,950.83	
Total		$514,043.41
GROSS PROFIT FROM SALES		$ 23,837.44
SELLING EXPENSES		53,275.48
SELLING LOSS		$ 29,438.04
ADMINISTRATIVE AND GENERAL EXPENSES		46,939.30
LOSS FROM OPERATIONS		$ 76,377.34
OTHER INCOME CHARGES — Amortization of special development and patent expenses, loss from obsolescence, uncollectible notes and accounts, etc.		78,337.40
GROSS LOSS FOR THE YEAR		$154,714.74
INCOME CREDITS—Discount on purchases, interest, etc.		16,005.07
NET LOSS FOR THE YEAR		$138,709.67
EARNED SURPLUS, BLUE STAR AIRLINES, INC., January 1, 1934	$ 141.74	
EARNED SURPLUS, BELLANCA AIRCRAFT CORPORATION, January 1, 1933 to December 31, 1933	53,092.67	53,234.41
DEFICIT, BELLANCA AIRCRAFT CORPORATION, FROM JANUARY 1, 1933, AND BLUE STAR AIR LINES, INC., FROM DATE OF ORGANIZATION		$ 85,475.26

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BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

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FINANCIAL STATEMENT
AS OF DECEMBER 31, 1935

MAR 1 - 1950

BELLANCA AIRCRAFT CORPORATION
AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

Summary of Consolidated Income and Earned Surplus for the Year Ended December 31, 1934

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EARNED SURPLUS, BLUE STAR AIRLINES, INC., January 1, 1934	$ 141.74	
EARNED SURPLUS, BELLANCA AIRCRAFT CORPORATION, January 1, 1933 to December 31, 1933	53,092.67	53,234.41
DEFICIT, BELLANCA AIRCRAFT CORPORATION, FROM JANUARY 1, 1933, AND BLUE STAR AIR LINES, INC., FROM DATE OF ORGANIZATION		$ 85,475.26

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1935

BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

•

FINANCIAL STATEMENT
AS OF DECEMBER 31, 1935

MAR 1 - 1950

BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

●

February 21, 1936.

To the Stockholders:

The balance sheet of your Corporation as at December 31, 1935, and the accompanying income and surplus accounts are submitted herewith.

In order to increase its working capital and to compete for government business, your corporation entered on June 17, 1935 into an agreement with Hammons & Co., Incorporated, and Michael J. Meehan, both of New York City, for the purchase and sale to them of 100,000 shares of its common stock contingent upon the stock receiving an "effective date" under the Securities and Exchange Act of 1933 and registered with the Securities and Exchange Commission under the Exchange Act of 1934 and listed on the New York Curb Exchange and on completion of the purchase of 100,000 shares, the underwriters were to receive a 60-day option to purchase 25,000 additional shares at $4 per share and 72,500 three year warrants, each entitling the holder to purchase one share of common stock at $5.00. The officers of the corporation were to get 52,500 five year option warrants for common stock exercisable at $5 per share.

As a result of an agreement with the underwriters, Mr. Temple N. Joyce was elected President in anticipation of the consummation of the agreement of June 17, 1935 and the operations and sales program of the company were expanded to prepare for increased business. This necessitated additional expenditure from which no sales resulted. However, a delay occurred in securing an "effective date" to the registration due to an investigation undertaken by the Securities and Exchange Commission for alleged manipulation of the company's stock.

Following the notification in possible delay in registration at the end of October, 1935, Mr. G. M. Bellanca as Chairman of the Board of Directors was given power to effect changes, and drastic cuts in personnel and operations were made and early in November he was re-elected President. During November, 1935, your company secured an extension from creditors for the settlement of its obligations. In view of the fact that since November 14 sales of $114,000.00 have been made, including the sale of seven airplanes, and as the cash position of your company was materially increased since December 31, 1935, creditors whose claims amounted to $50.00 or less have been paid, and 40% payment made on account due to other creditors, with the exception of your President.

In August, 1935, your corporation sold 6,255 shares of common stock held in the treasury to Hammons & Co., Incorporated, at $4 per share in acceleration of the obligations under the agreement of June 17, 1935.

While the year's loss amounted to $194,221.58, a large part of this or $81,203.85 was due to amortization of development expense and $35,879.06 was due to write-offs for obsolescence of inventory and uncollectible notes and accounts.

Respectfully submitted,

G. M. BELLANCA, *President.*

CURRENT ASSETS:

Cash (on hand and demand d

Notes and accounts receivabl

Trade:

Notes (past due, $6,500

Accounts.....

Accounts due from officer

employees.....

Other.....

Inventories (physical invent

at lower of cost or marke

cept work in process valu

cost—See note):

Used airplanes and engines.

Work in process.....

Materials and supplies....

Total current assets...

CASH HELD BY SHERIFF OF NEW

ATTACHMENT (See note).....

INVESTMENT (at cost).....

PROPERTY (at cost):

Land.....

Buildings.....

Machinery and equipment...

Total.....

Less reserves for depreciation

Property—Net.....

INTANGIBLE ASSETS—Patents, tr

amortization, $2,581.17).....

OTHER ASSETS:

Development expenses—Una

Due from former officers and

Refinancing expenses.....

Other.....

Total other assets..

Total.....

NOTES: The Sheriff of New York County

in January, 1936, at a cost of approxima

Unrecorded liabilities for legal ex

A claim for commissions, filed by

All patents granted to the corpor

patents during the solvency of the

The estimated completed cost of

will also be a penalty of approxima

A proposed additional assessment

No provision has been made in t

BELLANCA AIRCRAFT CORPORATION:

We have made an examination of the cc

of consolidated income and surplus for t

supporting evidence in a manner and to

In our opinion, based upon such exami

principles of accounting consistently foll

date.

Philadelphia, February 7, 1936.

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1926

ELLANCA AIRCRAFT CORPORATION (Incorporated in Delaware)
AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

Consolidated Balance Sheet, December 31, 1935

SETS

sits)	$ 34,149.34	
). $13,500.00		
10,346.82		
d		
38.81		
25.00	23,910.63	
s		
-		
t		
$26,150.56		
98,502.55		
58,332.08	182,985.19	
		$241,045.16
< County—Under Writ of		
		30,000.00
		220.00
	$ 80,874.19	
	294,506.35	
	106,689.65	
	$482,070.19	
	103,117.64	
		378,952.55
narks, etc. (less reserve for		
		16,648.29
rzed portion	$ 41,512.10	
loyees	4,414.09	
	2,936.58	
	3,259.60	
		52,122.37
		$718,988.37

LIABILITIES

Current Liabilities:			
Notes payable—Officer		$ 40,000.00	
Accounts payable—Trade		79,757.18	
Accrued expenses		1,415.18	
Other:			
Customers' advance deposits	$21,000.00		
Due to officers and employees	1,166.86		
Sundry	210.40	22,377.26	
Total current liabilities			$143,549.62
Capital Stock:			
7% cumulative preferred—Authorized, 10,000 shares of $100.00 each; none outstanding		—	
Common—Authorized 500,000 shares of $1.00 each; outstanding 174,750 shares		$174,750.00	
Total capital stock			174,750.00
Surplus:			
Capital surplus		$680,385.59	
Earned surplus (*deficit*):			
Bellanca Aircraft Corporation (from January 1, 1933)	*$279,818.56*		
Blue Star Airlines, Inc. (from August 15, 1929)	121.72	*279,696.84*	
Surplus—Net			400,688.75
Total			$718,988.37

w York, was holding $30,000.00 at December 31, 1935, pending settlement of suits against the Bellanca Aircraft Corporation. Such claims were settled $7,500,000, and the balance released.

s, etc., in connection with an underwriting agreement dated June 17, 1935, are estimated to be approximately $12,000.00.

mer employee, is being contested. No amount is specified.

since January 28, 1928, are registered in the name of Mr. G. M. Bellanca. The company holds an exclusive, non-assignable license for the use of these iny.

plane carried in work in process at December 31, 1935, is approximately $33,000.00 more than the sales price. The chief engineer estimates that there 5,000.00 to be deducted from the sales price.

pproximately $2,100.00 for Federal income taxes for the year 1933 will be contested.

ve statement for possible losses on notes and accounts receivable at December 31, 1935.

ACCOUNTANTS' CERTIFICATE

lated balance sheet of Bellanca Aircraft Corporation and its subsidiary, Blue Star Airlines, Inc., as of December 31, 1935, and of the related summary ir 1935. In connection therewith, we made a review of the accounting methods and examined or tested accounting records of the companies and other xtent which we considered appropriate in view of the system of internal accounting control.

n, the accompanying consolidated balance sheet and related summary of consolidated income and surplus fairly present, in accordance with accepted hy the companies, their consolidated financial condition at December 31, 1935, and the consolidated results of their operations for the year ended that

Haskins & Sells.

BELLANCA AIRCRAFT CORPORATION

AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

Summary of Consolidated Income and Surplus
for the Year Ended December 31, 1935

●

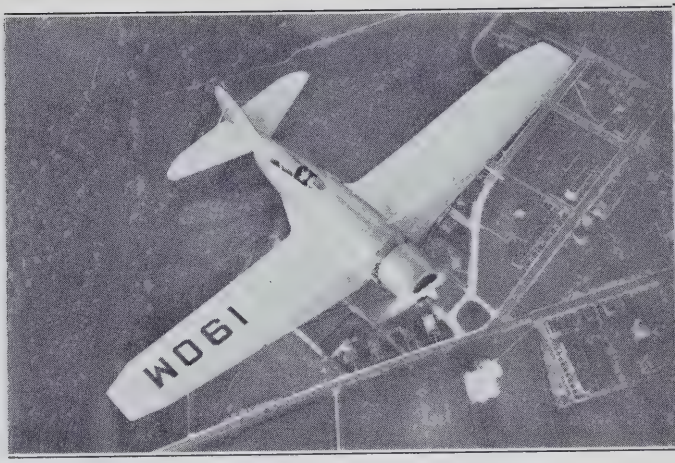
EARNED SURPLUS

Net Sales	$331,546.38
Cost of Sales (including maintenance and repairs, $4,087.90; depreciation and amortization, $13,631.67; and taxes, $806.09)	349,297.40
Excess of Cost Over Net Sales	$ 17,751.02
Selling Expenses	23,092.77
Loss from Sales	$ 40,843.79
Administrative and General Expenses (including maintenance and repairs, $122.73; depreciation and amortization, $2,317.19; and taxes, $710.12)	43,282.90
Loss from Operations	$ 84,126.69
Other Income Charges (including amortization of development expenses, $81,203.85; obsolescence, $18,327.63; uncollectible notes and accounts, $17,551.43; and engineering and promotion expenses, $5,284.76)	125,069.51
Gross Loss for the Year	$209,196.20
Income Credits (including option license fee, $10,000.00, and insurance adjustment, $1,075.20)	14,974.62
Net Loss for the Year	$194,221.58
Deficit from January 1, 1933, to December 31, 1934	85,475.26
Deficit, December 31, 1935	$279,696.84

CAPITAL SURPLUS

Balance, January 1, 1935:		
From reduction in stated value of common capital stock	$1,720,880.19	
Less operating deficit of Bellanca Aircraft Corporation to December 31, 1932	1,059,259.60	$661,620.59
Premium on Sale of Treasury Stock		18,765.00
Balance, December 31, 1935		$680,385.59

38.7
3414
936



BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

MAR 1 - 1950

FINANCIAL STATEMENT
for the Calendar Year, 1936

February 19, 1937.

TO THE STOCKHOLDERS
OF BELLANCA AIRCRAFT CORPORATION:

The Consolidated Balance Sheet and Profit and Loss Account of the Bellanca Aircraft Corporation and subsidiary company for the fiscal year ending December 31, 1936, as certified by the Company's auditors, Messrs. Haskins & Sells, are submitted herewith.

In previous years your Corporation has followed the conservative policy of writing off various development costs at a rapid rate, and again this year Special Development in the amount of $22,260.19 was written off. The following items are also included in the deficit for the fiscal year 1936: Obsolescence of Inventories $4,977.07; Provision for Uncollectible Accounts $2,000.00, and Cost of Law Suit Settlement $5,004.64.

The beginning of the year 1936 found the Company facing several problems, the most serious ones being the large total of past due accounts left from a previous shift in management, and the handicap of lack of working capital. With the concentrated efforts of the whole organization, 88% of the past due accounts were paid during the year, and satisfactory arrangements made with creditors for the small balance. With this major problem solved, it was possible to concentrate the facilities of the organization on improvements in technical design of aircraft, methods of production and on selling efforts.

As a result, the sale of the Bellanca "Flash", Model 28-70, was made to Captain James A. Mollison, who used this particularly outstanding craft to accomplish the Fastest Trans-Atlantic Crossing. The favorable publicity resulting and the encouragement given by this feat to every member of the organization, together with the improving financial condition, put the Company in a favorable position to obtain orders. A first order for $45,000 was obtained for a high-speed airplane; then an order for $896,000 was received for additional planes of the general "Flash" type; accordingly at December 31, 1936, the Company had on hand orders totaling over $950,000 secured with substantial deposits—the largest volume of orders taken during any similar period in the Company's history, and which exceeds total sales for any one year during its existence. Already during 1937 to date approximately $100,000 in orders have been received. Additional business is in course of negotiation with good prospects of closing. During the year 1936, all used planes on hand were sold with the exception of one.

Following receipt of the business mentioned above, an agreement was entered with a reputable and well-recommended financial organization to purchase 30,000 shares of the Common Stock of the Corporation, together with an option to purchase 70,000 additional shares within a short period of time. With these new funds, your Company will be in a position to compete with other leading manufacturers to participate in the large amount of military, as well as commercial orders, now in increasing demand in both domestic and foreign markets.

We are also glad to report that engineering is well advanced on a low-wing five-place commercial airplane intended for presentation in the market below $10,000. Approximately 500 units in this size and price-class are sold annually by other manufacturers, and with exclusive design features, high performance, low first-cost and the prestige of Bellanca ownership, it is anticipated that a large portion of this market may be had, thus providing the organization with a steady, uniform flow of production at a profit. As in the past years, Bellanca planes continue to lead the field in efficiency, and the fast record-breaking flight of Captain Mollison from Newfoundland to England amply demonstrated the continued leadership of Bellanca products.

It is a real pleasure to be able to report the successful results after a long and hard struggle, and your management will continue its policy of careful and economical operation in the prosperous years believed to be ahead. The economic depression of the past has tested both policies and personnel, and the future cannot but be benefitted by the experience gained.

Respectfully submitted,
G. M. BELLANCA, *President.*

BEL
A

CURRENT ASSETS:
Cash (on hand and demand
Notes and accounts receivab
Trade:
Notes (past due, $8,50
Accounts.....
Accounts due from of
and employees.....
Other.....

Total notes and acc
receivable.....
Less reserve for doubtful
and accounts.....

Notes and accounts
Deposit on contract.....
Inventories:
Used airplanes and er
(at estimated market
which is lower than c
Work in process (at lo
cost or market).....
Materials and supplie
lower of cost or mark

Total inventories..
Total current
INVESTMENT (at cost).....
PROPERTY (at cost) LESS RESER
DEPRECIATION:
Land.....
Buildings.....
Machinery and equipment..

Total.....
Less reserves for depreciatio

Property—Ne
INTANGIBLE ASSETS—Patents,
for amortization, $3,343.17)..

OTHER ASSETS:
Experimental and develop
Unamortized portion.....
Refinancing expenses.....
Advance commissions.....
Other.....

Total other as

TOTAL...

NOTES: All patents granted to the corpo
patents during the solvency of the com
Unrecorded claims for legal ser

BELLANCA AIRCRAFT CORPORATION:
We have made an examination of the c
summary of consolidated income and s
in a manner and to the extent which w
The inventory of used airplanes and en
In our opinion, based upon our examina
ciples of accounting consistently follow
of consolidated income and surplus, the

NCA AIRCRAFT CORPORATION (Incorporated in Delaware)
) SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1936

SSETS

)sits)	$ 23,953.87	
) $21,500.00		
2,443.47		
rs		
377.72		
101.62		
ts		
$24,422.81		
es		
1,647.69		
eivable—Net	22,775.12	
	5,000.00	
es		
$ 5,650.56		
of		
21,340.34		
nt		
38,465.29		
	65,456.19	
		$117,185.18
		220.00
For		
	$ 80,874.19	
	297,256.35	
	105,064.22	
	$483,194.76	
	117,531.28	
		365,663.48
-marks, etc. (less reserve		
		16,121.29
t expenses—		
	$107,775.04	
	3,980.58	
	500.00	
	2,339.67	
		114,595.29
		$613,785.24

LIABILITIES

CURRENT LIABILITIES:			
Notes payable—Trade		$ 2,500.00	
Notes payable—Officer		40,000.00	
Accounts payable—Trade		17,445.53	
Accrued Accounts		6,478.47	
Other:			
Customers' deposits	$ 31,300.00		
Due to officers and employees	1,418.99		
Sundry	233.87	32,952.86	
Total current liabilities			$ 99,376.86
CAPITAL STOCK:			
7% cumulative preferred—Authorized, 10,000 shares of $100.00 each; none outstanding			
Common—Authorized, 500,000 shares of $1.00 each; issued and outstanding, 174,750 shares		$174,750.00	
Total capital stock			174,750.00
SURPLUS:			
Capital surplus		$680,385.59	
Earned surplus (*deficit*):			
Bellanca Aircraft Corporation (from January 1, 1933)	*$340,838.93*		
Blue Star Airlines, Inc., (from August 15, 1929)	111.72	*340,727.21*	
Surplus—Net			339,658.38
TOTAL			$613,785.24

since January 28, 1928, are registered in the name of Mr. G. M. Bellanca. The company holds an exclusive, non-assignable license for the use of these

n connection with an underwriting agreement dated June 17, 1935, amount to approximately $12,000.00 and are being contested by the company.

ACCOUNTANTS' CERTIFICATE

Philadelphia, February 12, 1937.

lated balance sheet of Bellanca Aircraft Corporation and its subsidiary company, Blue Star Airlines, Inc., as of December 31, 1936, and of the related for the year 1936. In connection therewith we made a review of the accounting methods and examined or tested accounting records of the companies idered appropriate in view of their systems of internal accounting control.

s stated at market values as estimated by officials of the company, which are lower than cost.

the accompanying consolidated balance sheet and related summary of consolidated income and surplus fairly present, in accordance with accepted prin- the companies except for the change in the period for amortizing experimental and development expenses, as set forth in the foot-note to the summary ncial condition at December 31, 1936, and the results of their operations for the year ended that date.

HASKINS & SELLS.

BELLANCA AIRCRAFT CORPORATION
AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

♦ ♦ ♦

SUMMARY OF CONSOLIDATED INCOME AND SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1936

♦

EARNED SURPLUS

Net Sales	$218,011.64
Cost of Sales (including maintenance and repairs, $2,901.85; provision for depreciation, $13,674.60; and taxes, $1,348.25)	202,274.03
Gross Profit from Sales	$ 15,737.61
Selling Expenses	7,792.71
Profit from Sales	$ 7,944.90
Administrative and General Expenses (including provision for depreciation, $2,323.38; and taxes, $766.40)	35,659.62
Loss from Operations	$ 27,714.72
Other Income Charges (including amortization of experimental and development expense, $22,260.19; obsolescence, $4,977.07; settlement of law suits, $5,004.64; provision for uncollectible notes and accounts, $2,000.00)	39,800.76
Gross Loss for the Year	$ 67,515.48
Income Credits (including recovery of uncollectible accounts, $1.507.09)	5,480.64
Net Loss for the Year	$ 62,034.84
Other Surplus Charges (including cancelation of advances to former officers and employees, $3,956.75)	5,012.27
Gross Deficit for the Year	$ 67,047.11
Surplus Credits (including refund of Federal income tax—Year 1933, $5,325.24)	6,016.74
Deficit for the Year	$ 61,030.37
Deficit from January 1, 1933 to December 31, 1935	279,696.84
Deficit, December 31, 1936	$340,727.21

♦

CAPITAL SURPLUS

Balance, January 1, 1936:		
From reduction in stated value of common capital stock	$1,720,880.19	
From sale of treasury stock in excess of par value	18,765.00	
Total	$1,739,645.19	
Less operating deficit of Bellanca Aircraft Corporation to December 31, 1932	1,059,259.60	$680,385.59
Changes During 1936		Nil
Balance, December 31, 1936		$680,385.59

Note: During the year 1936, the Bellanca Aircraft Corporation extended from two years to four years the period for amortizing experimental and development expenses. However, no amortization was provided in 1936 on charges of prior years aggregating $71,892.00, as the provision on these charges in 1935, $35,946.00, was considered adequate by the Company, under the new basis, for the two years ended December 31, 1936. The amount of 1935 provision applicable to 1936 was $17,973.00.

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BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

FILE COPY
FEB 23 1938
BIGGS, MOHRMAN & CO.

MAR 1 - 1950

FINANCIAL STATEMENT
for the Calendar Year, 1937

February 19, 1938.

TO THE STOCKHOLDERS
OF BELLANCA AIRCRAFT CORPORATION:

There is submitted to you herewith financial report of Bellanca Aircraft Corporation and subsidiary company for the year ended December 31, 1937, together with certificate of Messrs. Haskins & Sells, Auditors.

Following the same momentum that carried your Company during 1936 to a potential position of handling profitable business, we are delighted to report that the year 1937 was one of notable advancement for your Company.

Starting with a large back-log of orders scheduled for delivery, the entire organization functioned with smooth coordination and excellent teamwork. Proper planning and careful management enabled the completion of this business in record time, resulting in an earned net profit of $120,264.74 after provision for all Federal and local taxes. This is $0.688 per share on the 174,750 shares of common capital stock outstanding. These earnings are after writing off various development costs, write-down on inventories because of reduction in market replacement cost, and making ample reserve for provisions for bad debts, discounts, taxes and the usual contingencies.

Net sales for 1937 were $1,591,520.09 as compared with $218,011.64 for 1936. This is the largest yearly volume of sales in the Company's history.

Out of the 1937 earnings a dividend of 50c per share was declared on December 17th, 1937. This dividend was paid on December 27, 1937 to the stockholders of record as of December 22, 1937, with the Company's four-year promissory notes bearing interest at 4% per annum.

You will notice that the above results amply demonstrate the flexibility, balance and adaptability of your Company's organization. The large volume of business was handled with extreme efficiency and the resulting product was admired and respected throughout the industry.

In addition to the large volume of aircraft delivered and resulting profit in 1937, we are glad to report unfilled orders in hand as of January 31, 1938 totaled $1,070,000.00 secured with substantial deposits, which amount is even higher than the business reported in hand in the 1936 annual report.

Engineering advances during 1937 were also outstanding. Two entirely new designs were completed and flown during the year. One was the Bellanca Trimotor—a full-cantilever low-wing creation believed to be the fastest trimotored aircraft in existence with a Top Speed of 285 m.p.h.; the other was the "Bellanca Junior" low wing monoplane designed to enter the popular price market—a full-sized three-place plane to sell at the initial price of $3150. Due to its unexcelled performance and economy, this plane has already received wide acclaim from the public. Within fifteen days of its announcement in January, 1938, inquiries had been received from 35 states and several foreign countries. The market for this type of plane is very large as evidenced from the fact that out of a total of 8070 planes licensed by the U. S. Department of Commerce as of August 1, 1937, approximately 76% were planes of 1 to 3-place size. Practically without competition in its price field, the "Bellanca Junior" fills a long-felt need for a true utility airplane.

Our relationship with out employees has been strengthened. During the year we not only distributed among all employees 7½% of the net profit realized by the Company on an order completed during the year, but also a substantial bonus at the end of the year.

When you read the consolidated balance sheet, the strong financial position of the Company is most evident. On December 31, 1937 current assets of $250,600.27 included $130,766.52 cash, and exceeded current liabilities in the ratio of better than 2 to 1.

In addition to the large backlog of orders totalling $1,070,000.00, your organization, by virtue of its established reputation for high performance airplanes, is in an excellent position to get its share of business resulting from increased Worldwide demand for military aircraft.

Also, the production of the commercial models—Pacemaker, Skyrocket, Aircruiser and the latest Bellanca Junior furnishes an ideal method for leveling the production peaks resulting from strictly military construction. The resultant stabilizing advantages in organization, increased flexibility, smaller turn-over in labor, etc. are apparent.

Your management will continue its policy of careful planning and efficient operation in the prosperous years believed to be ahead for us. These periods of strenuous effort are but the proving ground for policies and personnel, and the future cannot but be brighter from the experience gained.

Respectfully submitted,
G. M. BELLANCA, *President.*

BEL
A

CURRENT ASSETS:
Cash (on hand and demand
Note and accounts receivab
Trade:
Note (past due).....
Accounts.....
Accounts due from o
and employees.....
Other.....
Total note and acc
receivable.....
Less reserve for doubtfu
and accounts.....
Note and accounts
Deposits on specifications..
Inventories:
New airplanes (at esti
market value, which is
than cost).....
Work in process (book
tory at cost).....
Materials and supplie
lower of cost or mark
Total inventories..
Total current

INVESTMENT (at cost).....

PROPERTY (at cost) LESS RESER
DEPRECIATION:
Land.....
Buildings.....
Machinery and equipment..
Total.....
Less reserves for depreciatio
Property—Ne

INTANGIBLE ASSETS—Patents,
for amortization, $4,178.84)..

OTHER ASSETS:
Experimental and develop
unamortized portion.....
Refinancing expenses.....
Other.....
Total other as

TOTAL...

NOTES: All patents secured by the Cor
these patents during its solvency.
Unrecorded claims for legal ser

BELLANCA AIRCRAFT CORPORATION:
We have made an examination of the c
summary of consolidated income and s
in a manner and to the extent which w
In our opinion, based upon such examir
counting principles, which were mainta
ended that date.

ANCA AIRCRAFT CORPORATION (Incorporated in Delaware)
D SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1937

SSETS

posits)	$130,766.52	
	$ 6,500.00	
	2,232.14	
rs		
	247.31	
	100.47	
ts		
	$ 9,079.92	
te		
	539.69	
eivable—Net	8,540.23	
	200.00	
ed		
er		
	$37,280.00	
n-		
	33,673.34	
at		
	40,140.18	
	111,093.52	
ts		$250,600.27
		220.00
For		
	$ 80,874.19	
	297,256.35	
	115,042.17	
	$493,172.71	
	132,287.00	
		360,885.71
-marks, etc. (less reserve		
		15,587.62
t expenses—		
	$125,290.86	
	500.00	
	2,923.54	
		128,714.40
		$756,008.00

LIABILITIES

CURRENT LIABILITIES:			
Notes payable—officer		$ 40,000.00	
Accounts payable—trade		15,944.43	
Customers' deposits		26,278.00	
Due to officers and employees		2,027.64	
Sundry		41.66	
Accrued accounts:			
Federal income taxes:			
Normal and excess-profits		27,328.96	
Surtax		871.04	
Other taxes, payrolls, interest, etc.		8,843.15	
Total current liabilities			$121,334.88
FOUR-YEAR 4% CAPITAL NOTES DUE DECEMBER 27, 1941			87,375.00
CAPITAL STOCK:			
7% cumulative preferred—Authorized, 10,000 shares of $100.00 each; none outstanding		—	
Common—Authorized, 500,000 shares of $1.00 each; issued and outstanding, 174,750 shares		$174,750.00	
Total capital stock			174,750.00
SURPLUS:			
Capital surplus		$680,385.59	
Earned surplus (*deficit*):			
Bellanca Aircraft Corporation (from January 1, 1933)	*$307,939.19*		
Blue Star Airlines, Inc., (from August 15, 1929)	101.72	*307,837.47*	
Surplus—Net			372,548.12
TOTAL			$756,008.00

on since January 28, 1928 are registered in the name of Mr. G. M. Bellanca. The Corporation holds an exclusive non-assignable license for the use of

in connection with an underwriting agreement dated June 17, 1935 amount to approximately $12,000.00 and are being contested by the Corporation.

ACCOUNTANTS' CERTIFICATE

Philadelphia, February 15, 1938.

dated balance sheet of Bellanca Aircraft Corporation and its subsidiary company, Blue Star Airlines, Inc., as of December 31, 1937 and of the related for the year 1937. In connection therewith we made a review of the accounting methods and examined or tested accounting records of the Companies idered appropriate in view of the system of internal accounting control.

, the accompanying consolidated balance sheet and related summary of consolidated income and surplus fairly present, in accordance with accepted ac- by the Companies consistently with the preceding year, their financial condition at December 31, 1937, and the results of their operations for the year

HASKINS & SELLS.

BELLANCA AIRCRAFT CORPORATION
AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

◆ ◆ ◆

SUMMARY OF CONSOLIDATED INCOME AND SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1937

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EARNED SURPLUS

Net Sales		$1,591,520.09
Cost of Sales (including maintenance and repairs, $14,307.87; provision for depreciation, $14,901.03; and taxes, $10,150.14)		1,320,616.13
Gross Profit from Sales		$ 270,903.96
Selling Expenses		11,367.87
Profit from Sales		$ 259,536.09
Administrative and General Expenses (including provision for depreciation, $2,219.52, and taxes, $1,301.03)		42,852.19
Profit from Operations		$ 216,683.90
Other Income Credits		3,286.98
Gross Income for the Year		$ 219,970.88
Income Charges (including amortization of experimental and development expenses, $61,123.31; obsolescence, $3,058.14; and provision for Federal income taxes as follows: normal and excess-profits, $27,328.96; surtax, $871.04)		99,706.14
Net Income for the Year		$ 120,264.74
Surplus Charge—Dividend paid in four-year 4% notes due December 27, 1941		87,375.00
Surplus for the Year		$ 32,889.74
Less Deficit from January 1, 1933 to December 31, 1936		340,727.21
Deficit, December 31, 1937		$ 307,837.47

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CAPITAL SURPLUS

Balance, January 1, 1937:		
From reduction in stated value of common capital stock	$1,720,880.19	
From sale of treasury stock in excess of par value	18,765.00	
Total	$1,739,645.19	
Less operating deficit of Bellanca Aircraft Corporation to December 31, 1932	1,059,259.60	$ 680,385.59
Changes During 1937		Nil
Balance, December 31, 1937		$ 680,385.59

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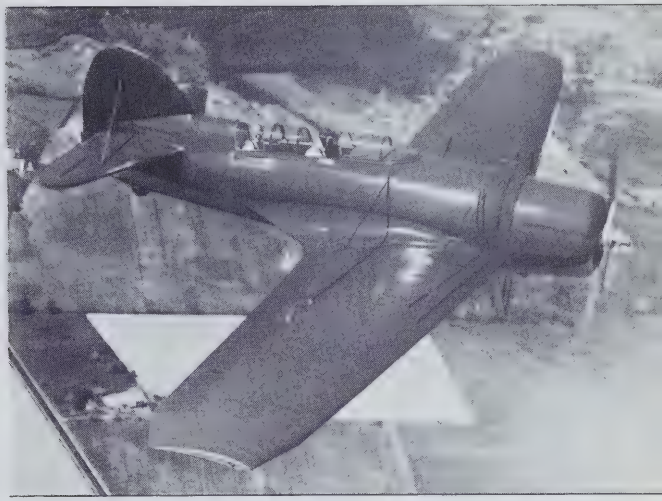

BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

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FINANCIAL STATEMENT
for the Calendar Year, 1938

February 17, 1939

TO THE STOCKHOLDERS OF
BELLANCA AIRCRAFT CORPORATION:

There is submitted herewith financial report of BELLANCA AIRCRAFT CORPORATION and subsidiary company for the year ended December 31, 1938.

Material progress was made by your company during 1938. The number of new airplane units sold in 1938 was forty per cent more than those sold in 1937. Net profits for the year 1938 amounted to $172,645.56, after provisions for all federal and local taxes, as compared to a net profit of $120,264.74 for the year 1937. These earnings are after writing off various development costs, write-down on inventories because of a reduction in market replacement cost, and making ample reserve for provisions for bad debts, discounts, and the usual contingencies.

A dividend of 40c per share was paid on December 28, 1938 to stockholders of record as of December 23, 1938.

During the past year the "Bellanca Junior" was subjected to considerable testing, proving and perfecting, in preparation for its release shortly for sale to the public. The commercial market for this type of airplane together with its possible use as a primary training ship for military use, should enable a reasonable volume of sales to be made during 1939.

The superiority of the Bellanca Aircruiser as a heavy-duty cargo plane was again demonstrated by additional sales made in foreign markets; while the Bellanca Skyrocket also received attention in foreign fields for use in executive transportation and photographic mapping projects. However, the greater portion of the company's volume of sales during 1938 was for the Bellanca Model 28-90 B fast fighter-bomber type. Jane's "All the World's Aircraft" for 1938 refers to this airplane as one of the outstanding planes of its type.

Your company is adding additional metal working equipment to its plant so as to permit increased use of metal construction and at the same time, has conducted research and tests in conjunction with the use of plastics as structural and bonding materials.

In order to better place the company in a position where it can avail itself of the expanded opportunities now presented and to put into practical operation certain definite plans which it has with respect to future activities, your management has arranged for additional capital through the sale of additional common stock. An application for the registration of 100,000 additional shares of common stock has been filed with the Securities and Exchange Commission. Under the underwriting agreement covering the said shares, the company will receive an aggregate amount of $750,000.00 if all the shares are taken down by the underwriters.

Your management will do its utmost to continue the forward development of your company during the year 1939.

Respectfully submitted,

G. M. BELLANCA, *President.*

BELL
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CURRENT ASSETS:
Cash on hand and demand
Accounts receivable—trade
Less reserve for doubtf
counts

Inventories:
Used airplane (at esti
market value, which
than cost)
Work in process (at lo
cost or market)
Materials and supplie
cost, which is not in
of market)

Other current assets:
Deposit on contract fo
chase of engines
Due from officer an
ployees
Other

Total current

INVESTMENT—At cost.

PROPERTY, PLANT, AND EQUIPM
Less reserve for depreciatio

Property, plant, and e

PATENTS, TRADE-MARKS, ETC.

DEFERRED CHARGES:
Experimental and develop
unamortized portion
Financing expenses
Unexpired insurance premiu
Prepaid taxes

Total deferred

TOTAL

A—The amount of $15,241.17 shown a
poration, less amortization, of patents iss
issued, $5,062.20; and the cost of trade-
G. M. Bellanca, but the Corporation holds
license for the use of the others during its
1938, between Mr. Bellanca and the Co
Bellanca which relate to inventions or impr
the Corporation on the aeronautical proble
poration and not otherwise, it will receive
Mr. Bellanca is to receive 25% of any
obtaining patents which have been issued

B—The Corporation has an agreement
twelve months from July 26, 1938, enter
the manufacture of certain airplanes (whi
nine months' options to purchase either 1
stock, the number of shares depending u
option price of the stock is $3.50 a share
to in the agreement occurs.

CA AIRCRAFT CORPORATION (Incorporated in Delaware)
SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1938

SETS

sits	$197,601.54	
$83,269.88		
c-		
341.08		
	82,928.80	
d		
ss		
$11,389.40		
of		
34,319.22		
at		
ss		
51,226.82		
	96,965.44	
r-		
$ 1,875.00		
n-		
707.96		
6,810.00		
	9,392.96	
s		$386,888.74
		220.00
—At cost	$505,937.51	
	148,386.94	
nent—depreciated value		357,550.57
Note A)		15,241.17
t expenses—		
	$110,595.19	
	5,000.00	
	1,442.72	
	1,183.48	
rges		118,221.39
		$878,121.87

LIABILITIES

CURRENT LIABILITIES:		
Notes payable officer		$10,000.00
Accounts payable—officers and employees		3,740.73
Accounts payable—trade		12,489.10
Accrued liabilities:		
Salaries and wages (including officer's bonus, $5,184.81)	$ 6,499.10	
Taxes:		
Federal income, etc.	36,870.00	
Other	5,987.25	
Interest	9,120.92	
Other	4,323.00	
		62,800.27
Customers' and other deposits		21,701.33
Total current liabilities		$140,731.43
LONG-TERM DEBT—Four-year 4% notes due December 27, 1941 (subordinate to all other liabilities)		87,175.00
CAPITAL STOCK:		
7% cumulative preferred—authorized, 10,000 shares, par value $100.00 each; none outstanding		—
Common—authorized, 500,000 shares, par value $1.00 each; outstanding, 174,750 shares (see notes B and C)		174,750.00
SURPLUS:		
Capital surplus		$680,557.35
Earned surplus (*deficit*)—from January 1, 1933		*205,091.91*
Net surplus		475,465.44
TOTAL		$878,121.87

NOTE: Notes A to D inclusive, on this page, are an integral part of this statement.

nts, trade-marks, etc., represents the cost to the Cor- $9,638.97; the cost of applications for patents not yet , $540.00. The patents are registered in the name of uments of three patents and an exclusive non-assignable gy. Agreements dated April 29, 1938 and December 19, ion provide that as to aircraft patents issued to Mr. ents made while he is working on and/or consulting with en being developed or in process of research of the Cor- clusive license for their use during its solvency, and fees received by it from any sublicensee. The cost of ng amortized over the respective lives of such patents. sales agent which provides that in the event it, within a contract with a specified prospective purchaser for s no longer obligated to do) the sales agent is to receive or 110,000 shares of the Corporation's common capital ie number of airplanes covered by the contract. The y be higher in the event a certain contingency referred

By an agreement with G. M. Bellanca dated December 19, 1938, the Corporation granted him an option to purchase up to 10,000 shares of common stock during the year 1940 at $11.50 a share and an option to purchase up to 10,000 shares of such stock during the year 1941 at $13.50 a share.

C—On November 18, 1938, the Corporation entered into an agreement with Tobey & Co., providing for the sale of up to 100,000 shares of its common capital stock, subject to, among other things, the becoming effective of a registration statement to be filed with the Securities and Exchange Commission in connection therewith. Under the terms of the agreement, if the registration becomes effective within 120 days of the date of the agreement, Tobey & Co. is to buy 5,000 shares at $6.50 a share within ten days of such effective date; and, subject to having purchased the said 5,000 shares, may purchase 45,000 additional shares at $6.50 a share within 90 days of such effective date; and, subject to having purchased the said 50,000 shares, may buy 50,000 additional shares at $8.50 a share within 180 days of such effective date. The registration statement, which was filed with the Securities and Exchange Commission January 7, 1939, had not become effective at February 11, 1939.

D—In January 1939, suits were filed against the Corporation for damages of $465,000.00 for alleged non-performance of agreements for sale of its common capital stock. The Corporation has been informed by its attorney that, in his opinion, the plaintiffs have no legal claim against it in connection with the alleged agreements.

BELLANCA AIRCRAFT CORPORATION
AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

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SUMMARY OF CONSOLIDATED INCOME AND SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1938

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INCOME AND EARNED SURPLUS (DEFICIT)

Sales		$1,340,776.69
Cost of Sales (including maintenance and repairs, $17,440.43; provision for depreciation, $14,548.24; and taxes, $13,867.32)		863,688.59
Gross Profit from Sales		$ 477,088.10
Selling Expenses (including commissions—$104,125.00)		120,057.97
Profit from Sales		$ 357,030.13
Administrative and General Expenses (including amortization of experimental and development expenses, $76,303.84; excess of cost over market value of work in process, $8,000.00; provision for depreciation, $2,292.64; taxes, $8,248.97; and obsolescence of materials and supplies, $874.87)		144,791.58
Profit from Operations		$ 212,238.55
Other Income Credits		4,171.02
Gross Income for the Year		$ 216,409.57
Income Charges (including provision for Federal income tax, $36,800.00)		43,764.01
Net Income for the Year		$ 172,645.56
Surplus Charge—Dividend paid		69,900.00
Surplus for the Year		$ 102,745.56
Deficit from January 1, 1933 to December 31, 1937		307,837.47
Deficit, December 31, 1938		$ 205,091.91

◆

CAPITAL SURPLUS

Balance, January 1, 1938:		
Arising from reduction in stated value of common stock	$1,720,880.19	
Arising from sale of treasury stock at price in excess of par value	18,765.00	
Total	$1,739,645.19	
Less operating deficit to December 31, 1932 (exclusive of deficit from operations from date of incorporation, December 31, 1927 to September 30, 1928 in the amount of $80,579.82 and other charges of $183,494.99, both of which were charged to capital stock)	1,059,259.60	
		$ 680,385.59
Prior Year's Adjustment		171.76
Balance, December 31, 1938		$ 680,557.35

ACCOUNTANTS' CERTIFICATE

Bellanca Aircraft Corporation:

Philadelphia, February 13, 1939.

We have made an examination of the consolidated balance sheet of Bellanca Aircraft Corporation and its subsidiary company, Blue Star Airlines, Inc., as of December 31, 1938 and of the related summary of consolidated income and surplus for the year 1938. In connection therewith, we made a review of the accounting methods and examined or tested accounting records of the Companies and other supporting evidence in a manner and to the extent which we considered appropriate in view of the systems of internal accounting control.

In our opinion, based upon such examination, the accompanying consolidated balance sheet with the footnotes thereon, and related summary of consolidated income and surplus fairly present, in accordance with accepted principles of accounting consistently followed by the Companies, their financial condition at December 31, 1938 and the results of their operations for the year ended that date.

Haskins & Sells.

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BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

MAR 1 - 1950

FINANCIAL STATEMENT
for the Calendar Year, 1939

February 19, 1940.

TO THE STOCKHOLDERS
OF BELLANCA AIRCRAFT CORPORATION:

There is submitted herewith financial report of Bellanca Aircraft Corporation and subsidiary for the year ended December 31, 1939, together with certificate of Haskins & Sells, auditors.

The Company's operations for the year 1939 resulted in a monetary loss; however, the year represented a period of development work for your Company and the laying of a sound foundation for future sales. Three important developments were pursued: (1) The Bellanca Cruisair low-wing monoplane; (2) Observation type plane for the U. S. Army Air Corps, and (3) a plastic construction process.

While in this period of war activity a majority of manufacturers, especially those who already had types developed for military service, are concentrating their efforts in military plane sales, your Company, while paying considerable attention to the military market and being successful in securing a contract from the Army Air Corps for prototype observation airplanes, has put its major effort in a long-trend development of commercial airplanes.

The growth of commercial aviation in the past few years has been phenomenal, and it is felt that this growth is but the preamble to an even greater volume. The Bellanca Cruisair 3-place low-wing full-cantilever monoplane with retractable landing gear, a cruising speed of 120 m.p.h., and gas consumption of 22 miles per gallon of automobile gasoline, has met with remarkable interest and success, and distributor commitments of upward of 157 planes have already been obtained. Nine units are scheduled for delivery before the end of February. Planned for 1940 is a sister plane of greater horsepower and carrying four persons, which will also be efficient in operation and economical to purchase. Your management has also realized the absolute need of a practical, low-priced multi-engined airplane, and will apply to good advantage its plastic construction development to make possible this new type for use by private individuals, feeder lines and air taxi services.

We are glad to announce that after conducting innumerable tests on combinations of plastic bonding (synthetic thermo-setting resins), your Corporation has developed its exclusive plastic construction process. The approval of the Civil Aeronautics Authority has been secured, and the process is being applied in the construction of commercial planes. The Bellanca plastic bonding product is easy to apply, and the resulting fabricated units are rot-proof, fungus-proof, unaffected by extremes of temperature, or the common chemicals. Light, economical structures having great strength and extreme long life are thus assured.

Registration of 100,000 additional shares of common stock with the Securities and Exchange Commission was effected in 1939, and the underwriters under the agreement took down 54,100 shares for which the Company received an aggregate amount of $366,650.00.

Respectfully submitted,

G. M. BELLANCA, *President.*

CURRENT ASSETS:
Cash in banks and on han
Accounts receivable—trad
Less reserve for d
accounts.....

Inventories:
Used airplanes and e
(at estimated market
which is less than c
Work in process (at l
cost or market)...
Materials and suppli
cost, which is not in
of market).....

Other current assets:
Deposit on contract f
chase of engines...
Due from officers an
ployees.....
Other.....

Total current a

CLAIM RECEIVABLE.....
INVESTMENT—At cost.....
PROPERTY, PLANT, AND EQUIP
Less reserve for depreciati

Property, plan
value.....

PATENTS, TRADE-MARKS, ETC.

DEFERRED CHARGES:
Experimental and develo
unamortized portion....
Unexpired insurance premi
Prepaid taxes.....

Total deferred c

TOTAL....

BELLANCA AIRCRAFT CORPORATION:
We have examined the consolidated b
consolidated income and surplus for t
accounting records and other supportin
In our opinion, the accompanying co
1939 and the results of their operations
preceding year.

February 19, 1940.

TO THE STOCKHOLDERS
OF BELLANCA AIRCRAFT CORPORATION:

There is submitted herewith financial report of Bellanca Aircraft Corporation and subsidiary for the year ended December 31, 1939, together with certificate of Haskins & Sells, auditors.

The Company's operations for the year 1939 resulted in a monetary loss; however, the year represented a period of development work for your Company and the laying of a sound foundation for future sales. Three important developments were pursued: (1) The Bellanca Cruisair low-wing monoplane; (2) Observation type plane for the U. S. Army Air Corps, and (3) a plastic construction process.

While in this period of war activity a majority of manufacturers, especially those who already had types developed for military service, are concentrating their efforts in military plane sales, your Company, while paying considerable attention to the military market and being successful in securing a contract from the Army Air Corps for prototype observation airplanes, has put its major effort in a long-trend development of commercial airplanes.

The growth of commercial aviation in the past few years has been phenomenal, and it is felt that this growth is but the preamble to an even greater volume. The Bellanca Cruisair 3-place low-wing full-cantilever monoplane with retractable landing gear, a cruising speed of 120 m.p.h., and gas consumption of 22 miles per gallon of automobile gasoline, has met with remarkable interest and success, and distributor commitments of upward of 157 planes have already been obtained. Nine units are scheduled for delivery before the end of February. Planned for 1940 is a sister plane of greater horsepower and carrying four persons, which will also be efficient in operation and economical to purchase. Your management has also realized the absolute need of a practical, low-priced multi-engined airplane, and will apply to good advantage its plastic construction development to make possible this new type for use by private individuals, feeder lines and air taxi services.

We are glad to announce that after conducting innumerable tests on combinations of plastic bonding (synthetic thermo-setting resins), your Corporation has developed its exclusive plastic construction process. The approval of the Civil Aeronautics Authority has been secured, and the process is being applied in the construction of commercial planes. The Bellanca plastic bonding product is easy to apply, and the resulting fabricated units are rot-proof, fungus-proof, unaffected by extremes of temperature, or the common chemicals. Light, economical structures having great strength and extreme long life are thus assured.

Registration of 100,000 additional shares of common stock with the Securities and Exchange Commission was effected in 1939, and the underwriters under the agreement took down 54,100 shares for which the Company received an aggregate amount of $366,650.00.

Respectfully submitted,

G. M. BELLANCA, *President.*

BELLANCA AIRCRAFT CORPORATION (Incorporated in Delaware) AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1939

ASSETS

CURRENT ASSETS:		
Cash in banks and on hand		$278,158.48
Accounts receivable—trade	$ 5,378.60	
Less reserve for doubtful accounts	541.08	4,837.52
Inventories:		
Used airplanes and engines (at estimated market value, which is less than cost)	$18,165.94	
Work in process (at lower of cost or market)	62,943.54	
Materials and supplies (at cost, which is not in excess of market)	55,906.58	137,016.06
Other current assets:		
Deposit on contract for purchase of engines	$ 2,611.88	
Due from officers and employees	2,079.73	
Other	7,200.00	11,891.61
Total current assets		$431,903.67
CLAIM RECEIVABLE		6,419.84
INVESTMENT—At cost		220.00
PROPERTY, PLANT, AND EQUIPMENT—At cost	$528,717.03	
Less reserve for depreciation	165,084.07	
Property, plant, and equipment—depreciated value		363,632.96
PATENTS, TRADE-MARKS, ETC. (see Note A)		14,520.01
DEFERRED CHARGES:		
Experimental and development expenses—unamortized portion	$ 99,770.87	
Unexpired insurance premiums	2,759.57	
Prepaid taxes	1,210.62	
Total deferred charges		103,741.06
TOTAL		$920,437.54

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable:		
Trade	$ 13,694.46	
Officers and employee	1,305.86	
Accrued liabilities:		
Salaries and wages	$2,578.76	
Taxes	6,145.40	
Interest	4,537.31	13,261.47
Customers' deposits		3,250.00
Total current liabilities		$ 31,511.79
LONG-TERM DEBT—Four-year 4% notes due December 27, 1941 (subordinate to all other liabilities)		87,165.00
CAPITAL STOCK:		
7% cumulative preferred—authorized, 10,000 shares, par value $100.00 each; none outstanding.		
Common—authorized, 500,000 shares, par value $1.00 each; outstanding, 229,650 shares (see Notes B and C)		229,650.00
SURPLUS:		
Capital surplus	$983,465.04	
Earned surplus (*deficit*)—from January 1, 1933	*411,354.29*	
Net surplus		572,110.75
TOTAL		$920,437.54

NOTE: Notes A to D inclusive, on the next page, are an integral part of this statement.

ACCOUNTANTS' CERTIFICATE

Philadelphia, February 12, 1940.

BELLANCA AIRCRAFT CORPORATION:

We have examined the consolidated balance sheet of Bellanca Aircraft Corporation and its subsidiary company, Blue Star Airlines, Inc., as of December 31, 1939 and the related summary of consolidated income and surplus for the year ended that date, have reviewed the system of internal control and the accounting procedures of the Companies, and have examined or tested their accounting records and other supporting evidence by methods and to the extent we deemed appropriate. Our examination of inventories included physical tests of quantities.

In our opinion, the accompanying consolidated balance sheet and related summary of consolidated income and surplus fairly present the financial condition of the Companies at December 31, 1939 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles followed by the Companies on a basis consistent with that of the preceding year.

HASKINS & SELLS.

NOTES

NOTES: A—The amount of $14,520.01 shown as patents, trade-marks, etc., represents the cost to the Corporation, less amortization, of patents issued—$8,712.81; the cost of applications for patents not yet issued, $5,267.20; and the cost of trade-marks, $540.00. The patents are registered in the name of G. M. Bellanca, but the Corporation holds assignments of three patents and an exclusive non-assignable license for the use of the others during its solvency. Agreements dated April 29, 1938 and December 19, 1938, between Mr. Bellanca and the Corporation provide that as to aircraft patents issued to Mr. Bellanca which relate to inventions or improvements made while he is working on and/or consulting with the Corporation on the aeronautical problems then being developed or in process of research of the Corporation and not otherwise, it will receive an exclusive license for their use during its solvency, and Mr. Bellanca is to receive 25% of any license fees received by it from any sublicensee. The cost of obtaining patents which have been issued is being amortized over the respective lives of such patents.

B—By an agreement with G. M. Bellanca, President, dated December 19, 1938, the Corporation agreed to grant him an option at the end of the first year of employment to purchase up to 10,000 shares of common stock during the year 1940 at $11.50 a share, and at the end of the second year of employment an option to purchase up to 10,000 shares of such stock during the year 1941 at $13.50 a share.

Under an agreement of employment dated April 6, 1939, the Corporation agreed to grant to Leighton W. Rogers, Vice-president and Director of Sales of the Corporation, an option at the end of the first year of employment to purchase during the year ended April 16, 1941 up to 5,000 shares of common stock at $11.50 per share, and at the end of the second year of employment an option to purchase during the year ended April 16, 1942 up to 5,000 shares of such stock at $13.50 per share. However, should the employment be terminated by the Corporation without cause, the second option may be exercised within one year from the date of the said termination. The Corporation gave 90 days notification of termination of employment on January 5, 1940.

By resolution of the Board of Directors dated June 9, 1939, the Corporation granted options to certain other officers and employees to purchase up to a total of 34,500 shares of its common stock in equal annual amounts over a five-year period beginning July 1, 1940. In each case the right to purchase is made available only if the officer or employee remains in the Company's employ during the preceding year, and any rights not exercised in any one-year period lapse and expire. The price of the shares increases, annually (in equal amounts) from $11.50 a share during the year ending June 30, 1941, to $19.50 a share during the year ending June 30, 1945.

C—Under the terms of an agreement with Tobey & Co. dated November 18, 1938, as amended January 25, 1940, Tobey & Co. may purchase 45,100 shares of the Corporation's common stock, within sixty days from January 13, 1940 at $8.50 per share plus 50% of such portion of the market value at the time such stock is taken down as shall exceed $10.00 but does not exceed $12.00 per share, plus 75% of such market value as shall exceed $12.00 per share; except that if any of the stock taken down is distributed by sale from the New York Curb Exchange and not through the dealers, the price of the stock shall be the price obtained by Tobey & Co. less a sum equal to twice the amount of the usual brokerage commission charged on the Exchange for the sale of such stock, but in no event shall the price to Tobey & Co. be less than $8.50 per share.

D—During the year 1939, suits were filed against the Corporation for damages of $480,000.00 for alleged non-performance of agreements for sale of its common stock and brokers' commissions thereon. The Corporation has been informed by its attorney that, in his opinion, the plaintiffs have no legal claim against it in connection with the alleged agreements.

BELLANCA AIRCRAFT CORPORATION
AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

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SUMMARY OF CONSOLIDATED INCOME AND SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1939

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INCOME AND EARNED SURPLUS (DEFICIT)

Sales	$204,349.61
Cost of Sales (including maintenance and repairs, $12,036.95: provision for depreciation, $14,405.38; and taxes, $9,280.87)	234,409.55
Excess of Cost of Sales Over Sales	$ 30,059.94
Selling Expenses (including commissions, $8,615.95; and taxes, $403.96)	43,075.19
Administrative and General Expenses (including amortization of experimental and development expenses, $74,273.54; excess of cost over market value of inventories, $7,800.00; provision for depreciation, $2,472.95; taxes, $5,819.88; and obsolescence of materials and supplies, $250.00)	130,100.23
Loss from Operations	$203,235.36
Other Income Charges	5,724.22
Gross Loss for the Year	$208,959.58
Income Credits	2,697.20
Net Loss for the Year	$206,262.38
Deficit from January 1, 1933 to December 31, 1938	205,091.91
Deficit, December 31, 1939	$411,354.29

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CAPITAL SURPLUS

Balance, January 1, 1939:		
Arising from reduction in stated value of common stock	$1,720,880.19	
Arising from sale of treasury stock at price in excess of par value	18,765.00	
Surplus of subsidiary company, Blue Star Airlines, Inc., at date of acquisition	171.76	
Total	$1,739,816.95	
Less operating deficit to December 31, 1932 (exclusive of deficit from operations from date of incorporation, December 31, 1927 to September 30, 1928 in the amount of $80,579.82 and other charges of $183,494.99, both of which were charged to capital stock)	1,059,259.60	$680,557.35
Excess of Proceeds Over Par Value of Common Stock Issued During 1939	$ 311,750.00	
Less expenses of issue	8,842.31	302,907.69
Balance, December 31, 1939		$983,465.04

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BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

MAR 1 - 1950

FINANCIAL STATEMENT
for the Calendar Year, 1940

TO THE STOCKHOLDERS
OF BELLANCA AIRCRAFT CORPORATION:

There is submitted herewith financial report of Bellanca Aircraft Corporation and subsidiary for the year ended December 31, 1940, together with certificate of Haskins & Sells, auditors.

During the latter part of the year, we were successful in securing large orders totalling approximately two and a half million dollars from one of the largest aircraft manufacturers for the production of various types of airplane parts with good prospects of securing additional orders. We believe that this departure from our previous policy of largely restricting our activities to the manufacture of airplanes, rather than parts, will not only be profitable but is the best method of contributing our whole share to the National Defense Program.

Production has been under way for some months on these orders, which should keep the plant operating at capacity during 1941 and most of 1942. Additional modest plant expansion and the purchase of considerable tools and equipment are proceeding so as to successfully fulfill these contracts. Our plans entail considerable increased bank credits.

Performance tests have been completed on the model YO-50 liason observation airplanes constructed for the United States Army Air Corp and the most important contract guarantees generally equalled or surpassed.

With an eye to future commercial business, the following commercial types were presented to the market:

Bellanca Cruisair Model 14-12 F3 with Franklin 6 cylinder 120 horse power engine;

Bellanca Cruisair Model 14-10 with Lycoming 4 cyclinder 100 horse power engine; and

Bellanca Trainor Model T-14-14 with Franklin 6 cylinder 130 horse power engine.

The availability of the three place Cruisair with this new and more familiar type of engine should enhance sales considerably during 1941, while the Trainor model T-14-14 is a type of plane which we believe will be required in large volume in conjunction with the Nation's Defense Program.

In view of the change in the basic type of business now engaging our facilities, it has been thought advisable to enlist the aid and support of several local business men of high character and ability, who have accepted our offer, and who will be of great value as officers and directors in assuring the successful and profitable operation of your company during this trying emergency period.

This major revision in management and directorate under this plan and the obtaining of adequate bank credit, requires your approval, and the enclosed proxy notice is called to your special attention, with the urgent plea of the present management for your loyal support and cooperation. Prompt action is important—if you can attend this special stockholder's meeting at the plant on March 20th, please do so—if not, won't you please execute and return the enclosed proxy so that the new management, directorate and financial support may be secured without further delay?

Respectfully submitted,
G. M. BELLANCA, *President.*

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CURRENT ASSETS:
Cash in banks and on han
Accounts receivable—trad
Less reserve for doul
counts .....

Inventories:
Used airplanes and
(at estimated mark
which is less than co
Work in process (at l
cost or market) ...
Materials and supplies
which is not in e
market) .....

Other current assets:
Deposits on contracts
chase of engines an
ment .....
Due from officers a
ployees .....
Other .....

Total current assets.

INVESTMENT—At cost .....

PROPERTY, PLANT, AND EQUIPM
Less reserve for depreciat

Property, plant, and

PATENTS, TRADE-MARKS, ETC. (

DEFERRED CHARGES:
Experimental and develop
amortized portion (see
Unexpired insurance pren
Prepaid taxes .....

Total deferre

TOTAL ..

TO THE STOCKHOLDERS
OF BELLANCA AIRCRAFT CORPORATION:

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This major revision in management and directorate under this plan and the obtaining of adequate bank credit, requires your approval, and the enclosed proxy notice is called to your special attention, with the urgent plea of the present management for your loyal support and cooperation. Prompt action is important—if you can attend this special stockholder's meeting at the plant on March 20th, please do so—if not, won't you please execute and return the enclosed proxy so that the new management, directorate and financial support may be secured without further delay?

Respectfully submitted,
G. M. BELLANCA, *President.*

BELLANCA AIRCRAFT CORPORATION (Incorporated in Delaware) AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1940

ASSETS

CURRENT ASSETS:		
Cash in banks and on hand		$ 15,915.47
Accounts receivable—trade	$ 13,999.97	
Less reserve for doubtful accounts	477.19	13,522.78
Inventories:		
Used airplanes and engines (at estimated market value which is less than cost)	$ 18,064.40	
Work in process (at lower of cost or market)	259,834.37	
Materials and supplies (at cost which is not in excess of market)	79,746.47	357,645.24
Other current assets:		
Deposits on contracts for purchase of engines and equipment	$ 1,524.76	
Due from officers and employees	1,219.07	
Other	6,010.20	8,754.03
Total current assets		$395,837.52
INVESTMENT—At cost		220.00
PROPERTY, PLANT, AND EQUIPMENT—At cost	$569,254.17	
Less reserve for depreciation	181,042.97	
Property, plant, and equipment—net		388,211.20
PATENTS, TRADE-MARKS, ETC. (see Note A)		13,856.61
DEFERRED CHARGES:		
Experimental and development expenses — unamortized portion (see note B)	$135,931.81	
Unexpired insurance premiums	1,405.72	
Prepaid taxes	1,228.35	
Total deferred charges		141,565.88
TOTAL		$939,691.21

LIABILITIES

CURRENT LIABILITIES:		
Notes payable—officer		$ 40,000.00
Accounts payable:		
Trade	$ 38,299.63	
Officers and employees	232.42	38,532.05
Accrued liabilities:		
Salaries and wages	$ 1,476.58	
Taxes	7,907.72	
Interest	4,925.45	14,309.75
Customers' advances		126,764.98
Four-year 4% notes due December 27, 1941 (subordinate to all other liabilities)		87,165.00
Total current liabilities		$306,771.78
CAPITAL STOCK:		
7% cumulative preferred - authorized, 10,000 shares, par value $100.00 each; none outstanding.		
Common — authorized, 500,000 shares, par value $1.00 each; outstanding, 229,650 shares (see note C)		229,650.00
SURPLUS:		
Capital surplus	$983,465.04	
Earned surplus (*deficit*)—from January 1, 1933	*580,195.61*	
Net surplus		403,269.43
TOTAL		$939,691.21

NOTE—Notes A to E, inclusive, on the next pages, are an integral part of this statement.

NOTES: A—The amount of $13,856.61 shown as patents, trade-marks, etc., represents the cost to the Corporation, less amortization, of patents issued, $8,439.41; the cost of applications for patents not yet issued, $4,802.20; and the cost of trade-marks, $615.00. The patents are registered in the name of G. M. Bellanca, but the Corporation holds assignments of three patents and has received or is to receive exclusive non-assignable licenses for the use of the others during its solvency. An agreement between Mr. Bellanca and the Corporation which expired on December 31, 1940, provided that as to aircraft patents issued to Mr. Bellanca which relate to inventions or improvements made while he is working on and/or consulting with the Corporation on the aeronautical problems then being developed or in process of research of the Corporation and not otherwise, it will receive an exclusive license for their use during its solvency, and Mr. Bellanca is to receive 25% of any license fees received by it from any sublicensee. The cost of obtaining patents which have been issued is being amortized over the respective lives of such patents.

B—It is the policy of the Corporation to amortize experimental and development expenses over a period of four years beginning with the year in which a particular project is completed.

C—At December 31, 1940, there were the following options granted to certain officers and present and former employees to purchase its common stock from the Corporation:

10,000 shares during the year 1941 at $13.50 a share (Grantee — G. M. Bellanca, President).

5,000 shares during the year ending April 16, 1941, at $11.50 a share.

5,000 shares during the two years ending April 16, 1941, at $13.50 a share.

31,500 shares in equal annual amounts over a five-year period beginning July 1, 1940, at $7.50 a share during the first year with annual increases of $2.00 a share to a price of $15.50 a share during the fifth year.

10,000 shares in equal annual amounts over a five-year period beginning November 1, 1941, at $7.50 a share with annual increases of $2.00 a share to a price of $15.50 a share during the fifth year.

On February 4, 1941, the Board of Directors authorized the Corporation to enter into an employment contract with G. M. Bellanca providing, in addition to other compensation, for options entitling him to purchase up to 10,000 shares of common stock at $7.50 a share during the year 1942, and up to 10,000 shares at $9.50 a share during 1943.

D—During the year 1939 a suit was filed against the Corporation for damages in the amount of $15,000.00 for an alleged earned commission due in connection with procuring an underwriting agreement. At December 31, 1940, this suit was still awaiting trial and the Corporation has been informed by its attorney that, in his opinion, there is no legal merit to the plaintiff's claim.

E—Because of delays in delivery of three airplanes to the United States Government, the Corporation may be subject to penalties of approximately $22,000, or, at the Government's option, the related contract may be canceled and all or any part of the airplanes may be purchased elsewhere and any excess cost applicable thereto may be charged to the Corporation. The Corporation contends that because of the circumstances causing the delays, it is unlikely that the penalties will be imposed or the contract canceled.

BELLANCA AIRCRAFT CORPORATION AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

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SUMMARY OF CONSOLIDATED INCOME AND SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1940

◈

INCOME AND EARNED SURPLUS (DEFICIT)

Sales	$212,837.74
Cost of Sales (including maintenance and repairs, $16,176.83; provision for depreciation, $14,075.00; and taxes, $14,384.73)	242,383.02
Excess of Cost of Sales Over Sales	$ 29,545.28
Selling Expenses (including commissions, $1,329.28, and taxes, $135.00)	34,794.03
Administrative and General Expenses (including amortization of experimental and development expenses, $53,618.92; provision for depreciation, $1,883.90; and taxes, $6,308.46)	102,517.10
Loss from Operations	$166,856.41
Other Income Charges	4,604.65
Gross Loss for the Year	$171,461.06
Income Credits	2,619.74
Net Loss for the Year	$168,841.32
Deficit from January 1, 1933 to December 31, 1939	411,354.29
Deficit, December 31, 1940	$580,195.61

◈

CAPITAL SURPLUS

Balance, January 1, 1940:		
Arising from reduction in stated value of common stock	$1,720,880.19	
Arising from sale of common treasury stock at price in excess of par value	18,765.00	
Arising from sales of common stock at prices in excess of par value	$311,750.00	
Less expenses of issue	8,842.31	302,907.69
Surplus of subsidiary company, Blue Star Airlines, Inc., at date of acquisition	171.76	
Total	$2,042,724.64	
Less operating deficit to December 31, 1932 (exclusive of deficit from operations from date of incorporation, December 31, 1927, to September 30, 1928, in the amount of $80,579.82 and other charges of $183,494.99, both of which were charged to capital stock)	1,059,259.60	$983,465.04
Changes During the Year 1940		Nil
Balance, December 31, 1940		$983,465.04

ACCOUNTANTS' CERTIFICATE

Bellanca Aircraft Corporation:

We have examined the consolidated balance sheet of Bellanca Aircraft Corporation and its subsidiary company, Blue Star Airlines, Inc., as of December 31, 1940, and the related summary of consolidated income and surplus for the year ended that date, have reviewed the system of internal control and the accounting procedures of the Companies, and have examined or tested their accounting records and other supporting evidence by methods and to the extent we deemed appropriate. Our examination of inventories included physical tests of quantities.

In our opinion, the accompanying consolidated balance sheet and related summary of consolidated income and surplus fairly present the financial condition of the Companies at December 31, 1940, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles followed by the Companies on a basis consistent with that of the preceding year.

Philadelphia,
February 13, 1941.

Haskins & Sells.

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BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

MAR 1 - 1950

FINANCIAL STATEMENT
for the Calendar Year, 1941

February 18, 1942.

TO THE STOCKHOLDERS
OF BELLANCA AIRCRAFT CORPORATION:

The consolidated Balance Sheet and Summary of Income and Surplus, certified by Haskins & Sells, Auditors, and herewith presented, set forth the Company's financial condition as of December 31, 1941 and the results of its operations for the year.

During 1941 the business of the Corporation has continued to expand rapidly, due entirely to increased production for Defense. To meet this increased demand an expansion program in new buildings was required and was completed in August, 1941. The backlog of unfilled orders as of February 4, 1942 was several times the volume of deliveries in the year 1941. We wish to state that we are prohibited under the present emergency from divulging the precise figure of unfilled orders.

To indicate the trend in results for factory operation, it is to be noted that profits from factory operation before accountant's and year-end adjustments for amortization of deferred debits, etc., were, for the last quarter of 1941, as follows:

October	$18,552.34
November	19,184.29
December	41,437.29

There is every indication that in the year 1942, the volume of business of the Company will be the largest in the history of the Corporation and this should be reflected favorably in the earnings of the Company.

The total deliveries for the year 1940 were	$212,837.74
The total deliveries for the year 1941 were	$962,543.04
The principal items contributing to the losses in 1941 were as follows:	
1. Amortization of deferred development expenses	$73,882.19
2. Loss on experimental contract, entered into in 1940	42,055.05
3. Loss from manufacturing of commercial airplanes, discontinued in September, 1941	28,228.91
	$144,166.15

At the Annual Meeting of the Stockholders, in addition to electing Directors, the Stockholders will be asked to approve an amendment to the Certificate of Incorporation set forth in the Notice of the Meeting, and also to ratify an amendment to the By-Laws providing for the indemnification of Directors and Officers as also set forth in the Notice. With respect to the resolution providing for indemnification of Directors and Officers, it should be stated that there are no claims of any kind being made at present against any of the Officers or Directors, but in order to continue to attract outstanding Directors and to furnish inducement to present Directors and Officers to continue to serve as such, it is deemed to be in the best interest of the Corporation to present this matter to the Stockholders for their (favorable) consideration.

Acknowledgment should be made of the full cooperation given by the employees of the Corporation during the year. The number of employees has more than doubled during this period, and older and new employees alike have been most generous with their efforts to further National Defense.

Only those closely connected with the Corporation's affairs can appreciate the helpfulness of the very active Directors and the constant efforts they are making in the solution of the Corporation's problems. The management is confident that through united effort, your Corporation will continue to make a really worthwhile contribution in the victory program.

Very truly yours,

JOSEPH S. WILSON, President.

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CURRENT ASSETS:
Cash in banks and on ha
Accounts receivable:
Trade ($104,534.04 ple
collateral to notes pa
Officers and employees
Other .....
Total .....
Less reserve for doubtful
Inventories:
Used airplane and en
estimated market valu
is less than cost) ....
Work in process (book
ies at cost, which is n
cess of market) .....
Materials and supplies
which is not in excess
ket) .....
Total curre
PROPERTY, PLANT, AND EQ
(collateral to bond and mor
of $400,000.00, executed to
able) .....
Less reserve for depreciati
Property, pl
PATENTS, TRADE-MARKS, ETC.
DEFERRED CHARGES:
Experimental and develop
amortized portion—(see
Unexpired insurance premi
Prepaid taxes .....
Total deferr
TOTAL

February 18, 1942.

TO THE STOCKHOLDERS
OF BELLANCA AIRCRAFT CORPORATION:

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	$144,166.15

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Very truly yours,
JOSEPH S. WILSON, President.

BELLANCA AIRCRAFT CORPORATION (Incorporated in Delaware) AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1941

ASSETS

CURRENT ASSETS:		
Cash in banks and on hand (see Note D)		$ 31,941.14
Accounts receivable:		
Trade ($104,534.04 pledged as collateral to notes payable)	$110,775.50	
Officers and employees	1,084.23	
Other	1,579.61	
Total	$113,439.34	
Less reserve for doubtful accounts	936.51	112,502.83
Inventories:		
Used airplane and engines (at estimated market value which is less than cost)	$ 600.00	
Work in process (book inventories at cost, which is not in excess of market)	344,659.34	
Materials and supplies (at cost which is not in excess of market)	163,871.12	509,130.46
Total current assets		$ 653,574.43
PROPERTY, PLANT, AND EQUIPMENT—At cost (collateral to bond and mortgage in the amount of $400,000.00, executed to secure notes payable)	$731,303.98	
Less reserve for depreciation	214,414.26	
Property, plant, and equipment—net		516,889.72
PATENTS, TRADE-MARKS, ETC. (see Note A)		13,011.52
DEFERRED CHARGES:		
Experimental and development expenses—unamortized portion—(see Note B)	$125,198.43	
Unexpired insurance premiums	2,871.73	
Prepaid taxes	1,260.84	
Total deferred charges		129,331.00
TOTAL		$1,312,806.67

LIABILITIES

CURRENT LIABILITIES:		
Notes payable—bank (see Note D)		$600,000.00
Accounts payable:		
Trade	$116,783.10	
Employees	111.05	116,894.15
Accrued liabilities:		
Salaries and wages	$ 7,584.47	
Bonus	9,501.84	
Taxes	15,798.19	
Interest	4,774.12	
Other	964.92	38,623.54
Four-year 4% notes matured December 27, 1941 (subordinate to all other liabilities)		76,323.50
Total current liabilities		$ 831,841.19
CAPITAL STOCK:		
7% cumulative preferred—authorized, 10,000 shares, par value $100 each; none outstanding.		
Common—authorized, 500,000 shares, par value $1 each; outstanding, 229,650 shares (see Note C)		229,650.00
SURPLUS:		
Capital surplus	$983,465.04	
Earned surplus (deficit)—from January 1, 1933	732,149.56	
Net surplus		251,315.48
TOTAL		$1,312,806.67

NOTE—Notes A to D, inclusive, on the following page, are an integral part of this statement.

NOTES:

A—The amount of $13,011.52 shown as patents, trademarks, etc., represents the cost to the Corporation, less amortization, of patents issued, $7,544.32; the cost of applications for patents not yet issued, $4,852.20; and the cost of trade-marks, $615.00. The patents are registered in the name of G. M. Bellanca, but the Corporation holds assignments of three patents and has received or is to receive exclusive non-assignable licenses for the use of the others during its solvency. An agreement between Mr. G. M. Bellanca and the Corporation provides that as to aircraft patents issued to Mr. Bellanca which relate to inventions or improvements made while he is working on and/or consulting with the Corporation on the aeronautical problems then being developed or in process of research of the Corporation and not otherwise, it will receive an exclusive license for their use during its solvency, and Mr. Bellanca is to receive 25% of any license fees received by it from any sublicensee. The cost of obtaining patents which have been issued is being amortized over the respective lives of such patents.

B—It is the policy of the Corporation to amortize experimental and development expenses over a period of four years beginning with the year in which a particular project is completed.

C—At December 31, 1941 the following options were granted to certain officers and employees of the Corporation to purchase from it shares of its common stock:

10,000 shares during 1942 at $7.50 a share.

10,000 shares during 1943 at $9.50 a share.

10,000 shares to December 31, 1942 at $5.00 a share.

22,400 shares in equal annual amounts over a four-year period beginning July 1, 1941 at $9.50 during the first year with annual increases of $2.00 a share to a price of $15.50 a share during the fourth year.

D—Notes Payable to Bank in the amount of $600,000 are partially secured by bond and mortgage on the Corporation's fixed property and equipment in the amount of $400,000 and by the assignment of all present and future claims for money due or to become due under certain contracts. The bank may at its option apply the balance in the Corporation's checking account (which, at December 31, 1941, amounted to $25,050.31) to the reduction of the outstanding notes and interest thereon.

BELLANCA AIRCRAFT CORPORATION
AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

SUMMARY OF CONSOLIDATED INCOME AND SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1941

INCOME AND EARNED SURPLUS (DEFICIT)

SALES		$982,543.04
COST OF SALES (including maintenance and repairs, $45,295.07; provision for depreciation, $33,126.45; and taxes, $26,217.45)		898,025.19
GROSS PROFIT FROM SALES		$ 84,517.85
SELLING, ADMINISTRATIVE, AND GENERAL EXPENSES:		
Selling	$ 12,832.14	
Administrative and general (including amortization of experimental and development expenses, $73,882.19; provision for depreciation, $954.84; and taxes, $8,731.46)	152,250.97	165,083.11
LOSS FROM OPERATIONS		$ 80,565.26
OTHER INCOME CHARGES		74,455.19
GROSS LOSS FOR THE YEAR		$155,020.45
INCOME CREDITS		3,066.50
NET LOSS FOR THE YEAR		$151,953.95
DEFICIT FROM JANUARY 1, 1933 TO DECEMBER 31, 1940		580,195.61
DEFICIT, DECEMBER 31, 1941		$732,149.56

CAPITAL SURPLUS

BALANCE, JANUARY 1, 1941:			
Arising from reduction in stated value of common stock		$1,720,880.10	
Arising from sale of common treasury stock at price in excess of par value		18,765.00	
Arising from sales of common stock at prices in excess of par value	$311,750.00		
Less expense of issue	8,842.31	302,907.69	
Surplus of subsidiary company, Blue Star Airlines, Inc., at date of acquisition		171.76	
Total		$2,042,724.64	
Less operating deficit to December 31, 1932 (exclusive of deficit from operations from date of incorporation December 31, 1927, to September 30, 1928 in the amount of $80,579.02 and other charges of $183,494.99, both of which were charged to capital stock)		1,059,259.60	$983,465.04
CHANGES DURING THE YEAR 1941			Nil
BALANCE, DECEMBER 31, 1941			$983,465.04

ACCOUNTANTS' CERTIFICATE

BELLANCA AIRCRAFT CORPORATION:

We have examined the consolidated balance sheet of Bellanca Aircraft Corporation and its subsidiary company, Blue Star Airlines, Inc., as of December 31, 1941 and the related summary of consolidated income and surplus for the year ended that date, have reviewed the accounting procedures of the Companies, and have examined their accounting records and other evidence in support of such financial statements. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the system of internal control. Our examination of inventories included physical tests of quantities.

In our opinion the accompanying consolidated balance sheet and summary of consolidated income and surplus fairly present the financial condition of the Companies at December 31, 1941 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles and practices applied on a basis consistent with that of the preceding year.

Philadelphia,
February 10, 1942.

HASKINS & SELLS.

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BELLANCA AIRCRAFT CORPORATION

NEW CASTLE, DELAWARE

FINANCIAL STATEMENT

For the Calendar Year, 1942

MAR 1 - 1950

February 8, 1943.

To the Stockholders of
BELLANCA AIRCRAFT CORPORATION:

The consolidated Balance Sheet and Summary of Income and Surplus, certified (with exceptions) by Haskins and Sells, Auditors, and herewith presented, set forth the Company's financial condition as of December 31, 1942 and the results of its operations for the year.

The volume of sales for the year 1942 were by far the largest in the history of this company and the resulting profits before taxes are in proportion. It is to be noted, however, that under Section 403 of the Sixth Supplemental National Defense Appropriation Act of 1942, approved April 28, 1942, as amended by Section 801 of the Revenue Act of 1942, approved October 21, 1942, the contracts of our corporation, involving sales directly or indirectly to the United States, are subject to renegotiation which actually means the prices may be adjusted retroactively. Due to the uncertainty of the results of this renegotiation your Board of Directors feels it improper to declare a dividend at this time although the profits for the year might appear to justify such action.

The War Department has prohibited companies engaged in war production from publishing detailed operating statements or production statistics and, inasmuch as our company is engaged wholly in war production, this annual report will not show such detailed information. However, the Balance Sheet and other statements included herewith, as compared with those of recent years, clearly indicate that the affairs of your Company are in better condition than they have been for several years.

For reasons mentioned we are not permitted to disclose the details of our plant expansion which have been made during the year 1942, but we think that you should know that the area increase is 197% over that of December 31, 1941.

During the year, our Company was awarded a War Department contract for volume production of one of the larger type operational-trainer airplanes, and this program is in active progress.

The mass production of important aircraft components and equipment, which has been carried on under subcontracts with one of the largest aircraft manufacturers, continues in increasing volume, and current delivery schedules are being met or exceeded.

The increase of production in 1942 over 1941 is 292 percent as measured by dollar value.

Employe enrollment has increased to approximately three times what is was a year ago.

Our employe relations continue to be satisfactory. The employes belong to local 840 UAW-CIO whose officers and committee cooperate with the Management in increasing the efficiency of production and improving the morale of their members. The average pay to our employes seems to remain very close to the national average and their productive output compares favorably with the best standards in the aircraft industry, in proportion to plant capacity.

The percentage of female employes, (as of January 1, 1943, 31.2%) continues to increase as greater numbers of our male employes enter the armed forces. We are now using women as operators of milling machines, drill presses, etc., as well as riveting, assembling, painting, inspecting and numerous other functions formerly thought to be appropriate only to men. Their spirit in entering into these strange occupations is inspiring and the Management has been highly impressed with the results so far.

Almost all of our new employes are inexperienced and require training before they can be of use in our production. We have a very satisfactory arrangement whereby a special school for our trainees is conducted locally in cooperation with State and Federal Agencies supplying us with partly trained work people in accordance with our pre-determined requirements.

The Management is convinced that best production results are attained by the use of incentive systems. To give effect to this policy the department heads as well as foremen have been given an agreement under which they participate in the profits of the company under certain limitations and a further sum is made available for special merit bonus. The production employes operate under group pemium systems which provide that when the group produces above a reasonable quota in the work week, each member of the group receives a portion of the savings resulting from the increased production.

We wish to acknowledge our appreciation of excellent spirit prevailing in the organization both as regards executives and foremen as well as the whole of our production employes. Naturally under war conditions all problems are multiplied and difficulties of operation are magnified. Actuated not only by loyalty to the company, but also by the realization that our production is entirely devoted to the war effort, the great majority of our employes takes pride in their contribution to the Victory Program.

It is our earnest desire to make 1943 an even better year than 1942, both for the Company and for the Aircraft Program.

LESSITER C. MILBURN,
President and General Manager.

BELLANCA AIRCRAFT CORPORATION
AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

Summary of Consolidated Income and Surplus
For the Year Ended December 31, 1942

INCOME AND EARNED SURPLUS (DEFICIT)

Sales		$3,855,072.13
Cost of Sales (including maintenance and repairs, $88,569.31; provision for depreciation, $51,328.55; and taxes, $32,255.58)		2,667,153.70
Gross Profit from Sales		$1,187,918.43
Selling, Administrative, and General Expenses:		
Selling	$ 1,908.15	
Administrative and general (including amortization of experimental and development expenses, $51,784.15; provision for depreciation, $2,815.83; and taxes, $14,764.36)	178,363.23	180,271.38
Profit from Operations		$1,007,647.05
Other Income Credits		43,142.16
Gross Income for the Year		$1,050,789.21
Income Charges		84,954.21
Net Income before Provision for Federal Income Taxes		$ 965,835.00
Provision for Federal Income Taxes:		
Normal and surtax	$257,900.00	
Excess profits	17,100.00	275,000.00
Net Income for the Year		$ 690,835.00
Deficit from January 1, 1933 to December 31, 1941		732,149.56
Deficit, December 31, 1942		$ 41,314.56

CAPITAL SURPLUS

Balance, January 1, 1942:			
Arising from reduction in stated value of common stock		$1,720,880.19	
Arising from sale of common treasury stock at price in excess of par value		18,765.00	
Arising from sales of common stock at prices in excess of par value	$311,750.00		
Less expense of issue	8,842.31	302,907.69	
Surplus of subsidiary company, Blue Star Airlines, Inc., at date of acquisition		171.76	
Total		$2,042,724.64	
Less operating deficit to December 31, 1932 (exclusive of deficit from operations from date of incorporation, December 31, 1927, to September 30, 1928 in the amount of $80,579.02 and other charges of $183,494.99, both of which were charged to capital stock)		1,059,259.60	$ 983,465.04
Changes During the Year 1942			Nil
Balance, December 31, 1942			$ 983,465.04

Note—See Balance Sheet footnote E.

BELLANCA AIRCRAFT CORPORATION
AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

Summary of Consolidated Income and Surplus
For the Year Ended December 31, 1942

INCOME AND EARNED SURPLUS (DEFICIT)

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Selling, Administrative, and General Expenses:		
Selling	$ 1,908.15	
Administrative and general (including amortization of experimental and development expenses, $51,784.15; provision for depreciation, $2,815.83; and taxes, $14,764.36)	178,363.23	180,271.38
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Changes During the Year 1942			Nil
Balance, December 31, 1942			$ 983,465.04

Note—See Balance Sheet footnote E.

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BELLANCA AIRCRAFT CORPORATION
AND SUBSIDIARY COMPANY, BLUE STAR AIRLINES, INC.

Consolidated Balance Sheet, December 31, 1942

ASSETS

Current Assets:			
Cash in bank and on hand			$144,279.52
Accounts receivable:			
Trade	$179,045.47		
Officers and employees	2,183.97		
Other	49,247.34		
Total	$230,476.78		
Less reserve for doubtful accounts	1,111.33		229,365.45
Advance expenditures on Government contracts			45,314.65
Inventories:			
Used airplane and engines (at estimated market value which is less than cost)	$ 1,001.00		
Work in process (book inventories at cost, which is not in excess of market)	406,912.94		
Materials and supplies (at cost which is not in excess of market)	206,333.48		614,247.42
Total current assets			$1,033,207.04
Post-War Credit in Respect of Excess Profits Tax			1,900.00
Claim for Additional Cost Under Contract			112,146.55
Property, Plant, and Equipment—At cost		$765,585.67	
Less reserve for depreciation		272,155.51	
Property, plant, and equipment—net			493,430.16
Patents, Trademarks, Etc. (see Note A)			12,110.57
Deferred Charges:			
Experimental and development expenses—unamortized portion (see Note B)		$ 74,601.86	
Unexpired insurance premiums		6,415.20	
Prepaid taxes		1,626.05	
Total deferred charges			82,643.11
Total			$1,735,437.43

Notes:

A—The amount of $12,110.57 shown as patents, trademarks, etc., represents the cost to the Corporation, less amortization, of patents issued, $6,643.37; the cost of applications for patents not yet issued, $4,852.20; and the cost of trademarks, $615.00. The patents are registered in the name of G. M. Bellanca, but the Corporation holds assignments of three patents and has received or is to receive exclusive non-assignable licenses for the use of the others during its solvency. The cost of obtaining patents which have been issued is being amortized over the respective lives of such patents.

B—It is the policy of the Corporation to amortize experimental and development expenses over a period of four years beginning with the year in which a particular project is completed.

LIABILITIES

Current Liabilities:			
Accounts payable:			
Trade	$114,284.42		
Employees	81.20		
Other	658.71		$115,024.33
Accrued liabilities:			
Salaries and wages	$ 36,423.14		
Bonus	75,718.36		
Federal income and excess profits taxes	276,900.00		
Other taxes	31,000.35		
Other	5,176.05		425,217.90
Employees' deductions—war bonds and stamps			14,931.72
Four-year 4% notes matured December 27, 1941 (subordinate to all other liabilities)			8,463.00
Total current liabilities			$ 563,636.95
Capital Stock:			
7% cumulative preferred. Authorized, 10,000 shares, par value $100 each; none outstanding.			
Common. Authorized, 500,000 shares, par value $1 each; outstanding, 229,650 shares (see Note C)			229,650.00
Surplus:			
Capital surplus		$983,465.04	
Earned surplus **(deficit)** from January 1, 1933		**41,314.56**	
Net surplus			942,150.48
Total			$1,735,437.43

C—At December 31, 1942 the following options were granted to certain officers and employees of the Corporation to purchase from it shares of its common stock:

10,000 shares during 1943 at $9.50 a share.

14,700 shares in equal annual amounts over a three-year period beginning July 1, 1942 at $11.50 during the first year with annual increases of $2.00 a share to a price of $15.50 a share during the third year.

D—The Corporation was accountable at December 31, 1942 for approximately $1,150,000 (not included in the above Balance Sheet) which was advanced by the United States Government for the construction of planes, etc. At that date expenditures aggregating approximately $765,000 had been approved and $219,000 had been expended but not yet approved.

E—Practically all of the Corporation's activities are related to contracts for war materials which are subject to renegotiation involving retroactive reduction in sales prices. It is impossible to forecast what adjustments may be necessary.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

LAND TITLE BUILDING
PHILADELPHIA

ACCOUNTANTS' CERTIFICATE

BELLANCA AIRCRAFT CORPORATION:

We have examined the consolidated balance sheet of Bellanca Aircraft Corporation and its subsidiary company, Blue Star Airlines, Inc., as of December 31, 1942 and the related summary of consolidated income and surplus for the year ended that date, have reviewed the accounting procedures of the Companies, and have examined their accounting records and other evidence in support of such financial statements. Except as to the omission of physical tests of inventories as stated in the succeeding paragraph, our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the system of internal control. Replies were not received to our requests for confirmation of accounts receivable aggregating approximately $185,000 from a war industry and a Government agency, but we were able to satisfy ourselves by other auditing procedures of the substantial correctness of these accounts.

Our examination of the inventories did not include physical tests of quantities, as in prior years, because in the interest of continued war production the plants were not shut down to permit the taking of physical inventories. The inventory amounts shown in the accompanying consolidated balace sheet represent opening inventories, plus raw materials at cost, productive labor, and manufacturing overhead, less the cost of goods sold at computed costs. We have reviewed the system of physical and accounting control over inventories and also have reviewed the records relating to the aforementioned costs upon which the ending inventories and the cost of goods sold are based. It is our opinion that the accounting records and controls are adequate, and, so far as it could be determined without taking physical inventories, the inventories at December 31, 1942 appear to be fairly stated.

Practically all of the Corporation's activities are related to contracts for war materials which are subject to renegotiation involving retroactive reduction in sales prices. It is impossible to forecast what adjustments may be necessary.

In our opinion, subject to the remarks in the two preceding paragraphs, the accompanying consolidated balance sheet and summary of consolidated income and surplus fairly present the financial condition of the Companies at December 31, 1942 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles and practices applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

Philadelphia,
February 6, 1943.

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Bellanca Aircraft Corporation

Bellanca Airport, New Castle, Delaware

February 8, 1944

To the Stockholders of
Bellanca Aircraft Corporation:

We submit herewith the regular annual report of your Company for the year ended December 31, 1943, including Balance Sheet and Income Statement as reported upon by Haskins & Sells, certified public accountants. These statements set forth the Company's financial condition as of December 31, 1943, and the results of its operations for the year.

The sales for the year (exclusive of work performed in connection with the Company's cost-plus-a-fixed-fee prime contract for completed aircraft) amounted to $6,222,543.06; as compared to sales for the year 1942 (exclusive of work performed under said prime contract and before price adjustments resulting from renegotiation of contracts) in the amount of $3,855,072.13. To accomplish this increase in sales, production personnel engaged thereon was augmented only about 20% during the year.

Net profit before Federal income and excess profits taxes amounted to $972,598.58 for the year 1943, as compared to $965,835.00 for the previous year. Thus, your Company was able to earn approximately the same net profit before Federal taxes, notwithstanding voluntary price adjustments during the year of more than $2,000,000.00. Net profit for the year after Federal income and excess profits taxes amounted to $242,598.58, as compared to $690,835.00 for 1942. Federal income and excess profits taxes for 1943 amounted to approximately $730,000.00, whereas they amounted only to $275,000.00 in 1942.

During 1943 the Army Air Forces Price Adjustment Board initiated renegotiation proceedings with respect to profits incurred during the year 1942, but those proceedings have not yet been completed. On the basis of proceedings to date, the net refund which the Company may be obliged to make on account of its 1942 income may amount to, but is not expected to exceed, $300,000.00. Renegotiation proceedings have not been initiated for the year 1943, but the Company anticipates, on the basis of its 1942 renegotiation experience, that no substantial refund, if any, will be required for 1943.

As of December 31, 1943, your Company had unfilled orders on its books amounting to approximately $30,000,000.00.

In December, 1943, the Board of Directors of your Company declared a dividend of 50 cents per share, payable on February 1, 1944, to stockholders of record as of January 10, 1944.

The Company is now engaged in two almost disassociated efforts. The original facilities of the Company which are wholly owned by the Company, together with certain rented facilities, have been used for the manufacture of aeronautical parts vital to the construction and operation of certain airplanes manufactured by other prime contractors. This work has been accomplished with exceptionally fine results and, because of mass production and ingenious tooling, your Company was able to make voluntary reductions in prices to prime contractors, amounting to more than $2,000,000.00 for the year of 1943.

The Defense Plant Corporation, in conjunction with the Army Air Forces, constructed and equipped for use of your Company a factory situated a very short distance from the original plant. This new facility is being used for the accomplishment of a prime contract with the Army Air Forces for the construction of completed airplanes. It is pleasing to note that the schedule of production set by the Army Air Forces for these airplanes is being met.

The total number of employees of the Company as of December 31, 1943, was 2,434.

Planning for the future of the Company is being carried on.

In conclusion, the management of your Company feels that 1943 was a year of healthy growth and accomplishment. Harmonious relations and sound cooperation have existed between management and labor and the teamwork of all of the employees of your Company merits the deep appreciation of the Directors and officers.

By Order of the Board of Directors:
John H. Jouett,
President.

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BELLANCA AIRCRAFT CORPORATION

FINANCIAL STATEMENTS, DECEMBER 31, 1943

BALANCE SHEET, DECEMBER 31, 1943

Assets

CURRENT ASSETS:			
Cash in banks and on hand		$ 640,728.30	
Accounts receivable:			
Trade (less reserve for doubtful accounts, $232.97)	$ 536,562.73		
United States Government—reimbursable expenditures on contracts	203,163.34		
Officers and employees	487.61		
Other	6,124.52	746,338.20	
Inventories:			
Used airplanes (at estimated market value which is less than cost)	$ 1,001.00		
Work in process (book inventories at cost, which is not in excess of market)	315,206.55		
Materials and supplies (book inventories at cost which is not in excess of market)	324,604.14	640,811.69	
Total current assets			$2,027,878.19
POST-WAR CREDIT ON EXCESS PROFITS TAX			70,000.00
PROPERTY, PLANT, AND EQUIPMENT—At cost		$ 802,886.73	
Less reserve for depreciation		331,339.71	
Property, plant, and equipment—net			471,547.02
PATENTS, TRADEMARKS, ETC. (see Note A)			11,226.89
DEFERRED CHARGES:			
Experimental and development expenses—unamortized portion (see Note B)		$ 36,273.45	
Other		7,985.16	44,258.61
TOTAL			$2,624,910.71

Liabilities

CURRENT LIABILITIES:			
Accounts payable:			
Trade	$ 109,325.52		
Other	1,325.95	110,651.47	
Dividend payable		114,825.00	
Accrued liabilities:			
Salaries and wages	$ 111,972.67		
Federal income and excess profits taxes	800,000.00		
Other taxes	52,551.55		
Other	16,716.53	981,240.75	
Employees' deductions—war bonds, income taxes and dues		111,660.93	
Four-year 4% notes matured December 27, 1941 (subordinate to all other liabilities)		6,958.50	
Total current liabilities			$1,325,336.65
CAPITAL STOCK:			
7% cumulative preferred—Authorized, 10,000 shares, par value $100 each; none outstanding.			
Common—Authorized, 500,000 shares, par value $1 each; outstanding 229,650 shares (see Note C)			229,650.00
SURPLUS:			
Capital surplus (no change during year)		$ 983,465.04	
Earned surplus from January 1, 1933 (see Notes D, E, and F)		86,459.02	
Total surplus			1,069,924.06
TOTAL			$2,624,910.71

SUMMARY OF INCOME AND EARNED SURPLUS

For the Year Ended December 31, 1943

SALES		$6,222,492.11
COST OF SALES (including maintenance and repairs, $205,322; provision for depreciation, $57,819; and taxes, $59,840)		5,211,066.45
GROSS PROFIT FROM SALES		$1,011,425.66
SELLING, ADMINISTRATIVE, AND GENERAL EXPENSES:		
Selling	$ 6,237.67	
Administrative and general (including amortization of experimental and development expenses, $38,380; provision for depreciation, $3,725; and taxes, $14,386)	185,588.07	191,825.74
PROFIT FROM OPERATIONS		$ 819,599.92
OTHER INCOME CREDITS (including fees on Government contract, $98,129.03-see Note F)		154,015.18
GROSS INCOME FOR THE YEAR		$ 973,615.10
INCOME CHARGES		1,016.52
NET INCOME BEFORE PROVISION FOR FEDERAL INCOME TAXES		$ 972,598.58
PROVISION FOR FEDERAL INCOME TAXES:		
Normal and surtax	$ 100,000.00	
Excess profits (net of post-war refund, $70,000)	630,000.00	730,000.00
NET INCOME FOR THE YEAR (see Notes)		$ 242,598.58
DIVIDEND		114,825.00
NET EARNED SURPLUS FOR THE YEAR (see Notes)		$ 127,773.58
DEFICIT FROM JANUARY 1, 1933 TO DECEMBER 31, 1942		41,314.56
EARNED SURPLUS FROM JANUARY 1, 1933 TO DECEMBER 31, 1943 (see Notes)		$ 86,459.02

NOTES TO FINANCIAL STATEMENTS

A. The amount of $11,226.89 shown as patents, trademarks, etc., represents the cost to the Corporation, less amortization, of patents issued, $5,759.69; the cost of applications for patents not yet issued, $4,852.20; and the cost of trademarks, $615.00. The patents are registered in the name of G. M. Bellanca, but the Corporation holds assignments of three patents and has received or is to receive exclusive non-assignable licenses for the use of the others during its solvency (but without limit as to the Corporation's contract with United States Government for production of airplanes). The cost of obtaining patents which have been issued is being amortized over the respective lives of such patents.

B. It is the policy of the Corporation to amortize experimental and development expenses over a period of four years beginning with the year in which a particular project is completed.

C. At December 31, 1943, options were held by certain officers and employees of the Corporation to purchase 9200 shares of its common capital stock in equal annual amounts over a two-year period beginning July 1, 1943, at a price during the first year of $13.50 a share and during the second year of $15.50 a share.

D. The Government has the right to renegotiate prices of the Corporation's war contracts with resulting reduction in its profits. Renegotiation proceedings have been initiated for the year 1942, but have not been consummated and no provision therefor has been made in the accounts; on the basis of proceedings to date, the net refund which the Corporation may be obliged to make for that year may amount to, but is not expected to exceed, $300,000. Renegotiation proceedings have not been initiated for the year 1943, but the Corporation anticipates, on the basis of its 1942 renegotiation experience, that no substantial refund, if any, will be required, and has not made any provision therefor.

E. At December 31, 1943, three cases were pending before the War Labor Board, involving claims by the Employees' Union for additional compensation to employees since February 10, 1943. The granting of these claims in their entirety (a condition considered unlikely) would not, in consideration of related taxes, increase the Corporation's current liabilities, or decrease its income for the year, by more than $30,000.

F. The Corporation was accountable at December 31, 1943, in connection with a contract for production of aircraft, for $4,988,250 (not included in the above balance sheet) which was advanced by the United States Government to a joint account under control of the Government and the Corporation. At that date, expenditures had been made from the account of $4,813,570 (of which $4,526,272 had been approved and $287,298 was in process of being approved) and the balance $174,680 was held in the joint cash account. The related accounts, which are maintained separately from the regular accounts of the Corporation, have not been examined by our independent public accountants, but are currently being audited by Comptroller General of the United States.

G. The accounts of the Corporation's wholly owned inactive subsidiary, Blue Star Air Lines, Inc., with total assets of $101 have been consolidated in the above balance sheet.